QUALCOMM INC/DE
Form 10-Q
July 25, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 24, 2018
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .
Commission File Number 0-19528
QUALCOMM Incorporated
(Exact name of registrant as specified in its charter)

Delaware	95-3685934
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
5775 Morehouse Dr., San Diego, California	92121-1714
(Address of Principal Executive Offices)	(Zip Code)

(858) 587-1121
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	o	Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	o	Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on July 23, 2018, was as follows:

Class	Number of Shares
Common Stock, $0.0001 per share par value	1,469,111,039

QUALCOMM INCORPORATED
Form 10-Q
For the Quarter Ended June 24, 2018

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
QUALCOMM
Incorporated
CONDENSED
CONSOLIDATED
BALANCE
SHEETS
(In millions, except
per share data)
(Unaudited)

	June 24, 2018	September 24, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$35,619	$ 35,029
Marketable securities	291	2,279
Accounts receivable, net	3,163	3,632
Inventories	1,785	2,035
Other current assets	3,460	618
Total current assets	44,318	43,593
Marketable securities	35	1,270
Deferred tax assets	844	2,900
Property, plant and equipment, net	3,073	3,216
Goodwill	6,630	6,623
Other intangible assets, net	3,174	3,737
Other assets	4,016	4,147
Total assets	$62,090	$ 65,486
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$1,644	$ 1,971
Payroll and other benefits related liabilities	1,379	1,183
Unearned revenues	507	502
Short-term debt	7,103	2,495
Other current liabilities	5,579	4,756
Total current liabilities	16,212	10,907
Unearned revenues	1,708	2,003
Income taxes payable	2,659	—
Long-term debt	15,378	19,398
Other liabilities	3,065	2,432
Total liabilities	39,022	34,740
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $0.0001 par value; 8 shares authorized; none outstanding	—	—
Common stock and paid-in capital, $0.0001 par value; 6,000 shares authorized; 1,469 and 1,474 shares issued and outstanding, respectively	—	274

Retained earnings	22,745	30,088
Accumulated other comprehensive income	323	384
Total stockholders' equity	23,068	30,746
Total liabilities and stockholders' equity	$62,090	$ 65,486

See accompanying notes.

3

QUALCOMM Incorporated
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 24, 2018	June 25, 2017	June 24, 2018	June 25, 2017
Revenues:				
Equipment and services	$4,110	$4,121	$12,750	$11,949
Licensing	1,489	1,250	4,178	4,438
Total revenues	5,599	5,371	16,928	16,387
Costs and expenses:				
Cost of revenues	2,491	2,488	7,394	7,140
Research and development	1,416	1,391	4,237	4,087
Selling, general and administrative	655	710	2,297	1,917
Other (Note 2)	112	9	1,605	962
Total costs and expenses	4,674	4,598	15,533	14,106
Operating income	925	773	1,395	2,281
Interest expense	(212)	(133)	(561)	(330)
Investment and other income, net (Note 2)	243	218	454	635
Income before income taxes	956	858	1,288	2,586
Income tax benefit (expense) (Note 3)	263	7	(5,659)	(290)
Net income (loss)	1,219	865	(4,371)	2,296
Net loss attributable to noncontrolling interests	—	1	—	1
Net income (loss) attributable to Qualcomm	$1,219	$866	$(4,371)	$2,297
Basic earnings (loss) per share attributable to Qualcomm	$0.82	$0.59	$(2.96)	$1.55
Diluted earnings (loss) per share attributable to Qualcomm	$0.82	$0.58	$(2.96)	$1.54
Shares used in per share calculations:				
Basic	1,478	1,478	1,479	1,478
Diluted	1,487	1,491	1,479	1,491
Dividends per share announced	$0.62	$0.57	$1.76	$1.63

See accompanying notes.

4

QUALCOMM Incorporated
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 24, 2018	June 25, 2017	June 24, 2018	June 25, 2017
Net income (loss)	$1,219	$ 865	$(4,371)	$2,296
Other comprehensive (loss) income, net of income taxes:				
Foreign currency translation (losses) gains	(237)	138	(64)	128
Reclassification of foreign currency translation gains included in net income (loss)	—	(1)	—	(1)
Noncredit other-than-temporary impairment losses related to certain available-for-sale debt securities and subsequent changes in fair value	—	—	—	6
Reclassification of net other-than-temporary losses on available-for-sale securities included in net income (loss)	—	1	1	82
Net unrealized gains (losses) on other available-for-sale securities	3	37	2	(104)
Reclassification of net realized losses (gains) on available-for-sale securities included in net income (loss)	2	(72)	(7)	(200)
Net unrealized gains (losses) on derivative instruments	3	(40)	(3)	(43)
Reclassification of net realized losses (gains) on derivative instruments included in net income (loss)	7	(3)	10	(5)
Total other comprehensive (loss) income	(222)	60	(61)	(137)
Total comprehensive income (loss)	997	925	(4,432)	2,159
Comprehensive loss attributable to noncontrolling interests	—	1	—	1
Comprehensive income (loss) attributable to Qualcomm	$997	$ 926	$(4,432)	$2,160

See accompanying notes.

5

QUALCOMM Incorporated
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended	
	June 24, 2018	June 25, 2017
Operating Activities:		
Net (loss) income	$(4,371)	$2,296
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization expense	1,165	1,064
Income tax provision in excess of (less than) income tax payments (Note 3)	4,973	(467)
Non-cash portion of share-based compensation expense	659	712
Net realized gains on marketable securities and other investments	(101)	(375)
Indefinite and long-lived asset impairment charges	96	76
Impairment losses on marketable securities and other investments	40	163
Other items, net	25	14
Changes in assets and liabilities:		
Accounts receivable, net	470	(1,021)
Inventories	245	(182)
Other assets	90	111
Trade accounts payable	(296)	(543)
Payroll, benefits and other liabilities	1,514	878
Unearned revenues	(178)	(149)
Net cash provided by operating activities	4,331	2,577
Investing Activities:		
Capital expenditures	(625)	(428)
Purchases of available-for-sale marketable securities	(5,835)	(15,509)
Proceeds from sales and maturities of available-for-sale securities	9,105	19,643
Purchases of other marketable securities	(49)	(705)
Deposits of investments designated as collateral	—	(2,000)
Acquisitions and other investments, net of cash acquired	(192)	(1,401)
Proceeds from other investments	207	18
Other items, net	4	40
Net cash provided (used) by investing activities	2,615	(342)
Financing Activities:		
Proceeds from short-term debt	9,385	6,848
Repayment of short-term debt	(7,198)	(7,598)
Proceeds from long-term debt	—	10,953
Repayment of long-term debt	(1,571)	—
Deposit to redeem long-term debt	(2,831)	—
Proceeds from issuance of common stock	387	331
Repurchases and retirements of common stock	(1,425)	(1,027)
Dividends paid	(2,600)	(2,411)
Payments of tax withholdings related to vesting of share-based awards	(273)	(263)

Payment of purchase consideration related to RF360 joint venture	(157)	—
Other items, net	(54)	(133)
Net cash (used) provided by financing activities	(6,337)	6,700
Effect of exchange rate changes on cash and cash equivalents	(19)	28
Net increase in cash and cash equivalents	590	8,963
Cash and cash equivalents at beginning of period	35,029	5,946
Cash and cash equivalents at end of period	$35,619	$14,909

See accompanying notes.

6

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

Financial Statement Preparation. These condensed consolidated financial statements have been prepared by QUALCOMM Incorporated (collectively with its subsidiaries, the Company or Qualcomm) in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the interim financial information includes all normal recurring adjustments necessary for a fair statement of the results for the interim periods. These condensed consolidated financial statements are unaudited and should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended September 24, 2017. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year. The Company operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. Each of the three-month and nine-month periods ended June 24, 2018 and June 25, 2017 included 13 weeks and 39 weeks, respectively.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company's condensed consolidated financial statements and the accompanying notes. Actual results could differ from those estimates. Certain prior year amounts have been reclassified to conform to the current year presentation.

During the third quarter of fiscal 2018, the Company eliminated the one-month reporting lag previously used to consolidate its RF360 Holdings joint venture to provide contemporaneous reporting within its consolidated financial statements. The effect of this change is not material to the consolidated financial statements, and therefore, the impact of eliminating the one-month reporting lag has been included in the Company's results of operations for the three months and nine months ended June 24, 2018.

Earnings (Loss) Per Common Share. Basic earnings (loss) per common share is computed by dividing net income (loss) attributable to Qualcomm by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share is computed by dividing net income attributable to Qualcomm by the combination of dilutive common share equivalents, comprised of shares issuable under the Company's share-based compensation plans, if any, and the weighted-average number of common shares outstanding during the reporting period. Due to the net loss for the nine months ended June 24, 2018, all of the common share equivalents issuable under share-based compensation plans had an anti-dilutive effect and were therefore excluded from the computation of diluted loss per share. The following table provides information about the diluted earnings per share calculation (in millions):

	Three Months Ended		Nine Months Ended	
	June 24, 2018	June 25, 2017	June 24, 2018	June 25, 2017
Dilutive common share equivalents included in diluted shares	9.0	12.2	—	13.5
Shares of common stock equivalents not included because the effect would be anti-dilutive or certain performance conditions were not satisfied at the end of the period	0.6	0.6	43.2	3.8

Share-Based Compensation. Total share-based compensation expense, related to all of the Company's share-based awards, was comprised as follows (in millions):

	Three Months Ended		Nine Months Ended	
	June 24, 2018	June 25, 2017	June 24, 2018	June 25, 2017
Cost of revenues	$9	$ 10	$30	$ 30
Research and development	140	147	447	455
Selling, general and administrative	40	70	182	227
Share-based compensation expense before income taxes	189	227	659	712
Related income tax benefit	(34)	(28)	(111)	(113)
	$155	$ 199	$548	$ 599

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

At June 24, 2018, total unrecognized compensation expense related to nonvested restricted stock units granted prior to that date was $1.1 billion, which is expected to be recognized over a weighted-average period of 1.9 years. At June 24, 2018, the Company had 23.8 million restricted stock units outstanding and 6.5 million stock options outstanding.
Recent Accounting Pronouncements.
Share-based Awards: In March 2016, the Financial Accounting Standards Board (FASB) issued new guidance that changed the accounting for share-based awards, including income taxes, classification of awards and classification in the statement of cash flows. The Company adopted the new guidance in the first quarter of fiscal 2018. In accordance with the new guidance, excess tax benefits or deficiencies associated with share-based awards are recognized through earnings when the awards vest or settle, rather than in stockholders' equity. In the nine months ended June 24, 2018, net excess tax benefits associated with share-based awards of $15 million were recognized in the Company's income tax provision. In addition, cash flows related to excess tax benefits are presented as an operating activity and cash payments made on an employee's behalf for withheld shares are presented as financing activities, with the prior periods adjusted accordingly. As a result of these changes, amounts for the nine months ended June 25, 2017 have been adjusted as follows: net cash provided by operating activities increased by $301 million with a corresponding offset to net cash used in financing activities. The new guidance also impacts the Company's earnings per share calculation as the estimate of dilutive common share equivalents under the treasury stock method no longer assumes that the estimated tax benefits realized when an award is settled are used to repurchase shares. There was no impact of this change on the Company's calculation of earnings per share as a result of the net loss for the nine months ended June 24, 2018. The Company elected to continue its practice of estimating forfeitures expected to occur in determining the amount of compensation cost to be recognized each period.
Revenue Recognition: In May 2014, the FASB issued new guidance related to revenue recognition, which outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance. The new guidance requires a company to recognize revenue as control of goods or services transfers to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. It defines a five-step approach for recognizing revenue, which may require a company to use more judgment and make more estimates than under the current guidance. The Company will adopt the new guidance in the first quarter of fiscal 2019 using the modified retrospective approach, with the cumulative effect of applying the new guidance recognized as an adjustment to the opening retained earnings balance. The Company is finalizing its identification of changes to policy, processes, systems and controls, as well as its assessment of data availability and presentation necessary to meet the additional disclosure requirements of the guidance in the notes to the consolidated financial statements.
The Company currently expects the adoption of this new guidance to most significantly impact its licensing business (Qualcomm Technology Licensing, or QTL). Specifically, the Company expects a change in the timing of revenues recognized from sales-based royalties, which are the vast majority of QTL's revenues. The Company currently recognizes sales-based royalties as revenues in the period in which such royalties are reported by licensees, which is after the conclusion of the quarter in which the licensees' sales occur and when all other revenue recognition criteria are met. Under the new guidance, the Company will be required to estimate and recognize sales-based royalties in the period in which the associated sales occur, resulting in an acceleration of revenue recognition compared to the current method. As a result of recognizing royalty revenues based on estimates, adjustments to revenues will be required in subsequent periods based on the actual amounts reported by licensees. Upon adoption of the new guidance, licenses to use portions of the Company's intellectual property portfolio will be considered one performance obligation, and license fees will be recognized as revenues on a straight-line basis over the estimated period of benefit of the license to

the licensee, which is similar to the recognition of license revenues under the current guidance. The Company currently accounts for customer incentive arrangements in its licensing and semiconductor businesses, including volume-related and other pricing rebates or cost reimbursements for marketing and other activities involving certain of the Company's products and technologies, in part based on the maximum potential liability. Under the new guidance, the Company will estimate the amount of all customer incentives. The Company does not otherwise expect the adoption of the new guidance to have a material impact on its businesses.

Financial Assets: In January 2016, the FASB issued new guidance on classifying and measuring financial instruments, which requires that (i) all equity investments, other than equity-method investments, in unconsolidated entities generally be measured at fair value through earnings and (ii) when the fair value option has been elected for financial liabilities, changes in fair value due to instrument-specific credit risk be recognized separately in other comprehensive income. Additionally, it changes the disclosure requirements for financial instruments. For equity investments that do not have readily determinable fair values, the Company expects to use the measurement alternative, which is defined as cost, less impairments, adjusted by observable price changes in orderly transactions for identical or similar investments. The Company anticipates the adoption

QUALCOMM
Incorporated
NOTES TO
CONDENSED
CONSOLIDATED
FINANCIAL
STATEMENTS
(Unaudited)

of the new guidance will increase the volatility of the Company’s investment and other income, net due to recording the changes in fair value of equity investments through earnings. The Company will adopt the new guidance in the first quarter of fiscal 2019 using the modified retrospective transition method for equity investments that have readily determinable fair values, with the cumulative effect of applying the new guidance recognized as an adjustment to opening retained earnings in the year of adoption, and the prospective transition method for equity investments that do not have readily determinable fair values. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements.

In June 2016, the FASB issued new guidance that changes the accounting for recognizing impairments of financial assets. Under the new guidance, credit losses for certain types of financial instruments will be estimated based on expected losses. The new guidance also modifies the impairment models for available-for-sale debt securities and for purchased financial assets with credit deterioration since their origination. The new guidance will be effective for the Company starting in the first quarter of fiscal 2021 and generally requires the modified retrospective transition method, with the cumulative effect of applying the new guidance recognized as an adjustment to opening retained earnings in the year of adoption, except for certain financial assets where the prospective transition method is required, such as available-for-sale debt securities for which an other-than-temporary impairment has been recorded. Early adoption is permitted starting in the first quarter of fiscal 2020. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements and whether to adopt the new guidance early.

Leases: In February 2016, the FASB issued new guidance related to leases that outlines a comprehensive lease accounting model and supersedes the current lease guidance. The new guidance requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms of greater than 12 months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. The Company will adopt the new guidance in the first quarter of fiscal 2020 and expects to use the modified retrospective approach, with the cumulative effect of applying the new guidance recognized as an adjustment to opening retained earnings in the year of adoption. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements and whether to apply any of the optional practical expedients.

Hedge Instruments: In August 2017, the FASB issued new guidance that expands and refines hedge accounting for both financial and non-financial risks, aligns the recognition and presentation of the effects of hedging instruments and hedged items in the financial statements, and includes targeted improvements related to the assessment of hedge effectiveness. The new guidance also modifies disclosure requirements for hedging activities. The Company plans to adopt the new guidance in the first quarter of fiscal 2019 using the modified retrospective transition method, with the cumulative effect of applying the new guidance recognized as an adjustment to opening retained earnings in the year of adoption, and does not expect the effects of the adoption to have a material impact on its consolidated financial statements.

Other: In August 2016, the FASB issued new guidance related to the classification of certain cash receipts and cash payments on the statement of cash flows. The Company will adopt the new guidance in the first quarter of fiscal 2019 using the retrospective transition method for each period presented, and does not expect the effects of the adoption to have a material impact on its consolidated statements of cash flows.

In October 2016, the FASB issued new guidance that changes the accounting for income tax effects of intra-entity transfers of assets other than inventory. Under the new guidance, the selling (transferring) entity is required to recognize a current tax expense or benefit upon transfer of the asset. Similarly, the purchasing (receiving) entity is required to recognize a deferred tax asset or deferred tax liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. The Company will adopt the new guidance in the first quarter of fiscal 2019 using the modified retrospective transition method, with the cumulative effect of applying the new guidance recognized as an adjustment to opening retained earnings in the year of adoption, and is in the process of determining the effects the adoption will have on its consolidated financial statements.

In November 2016, the FASB issued new guidance related to the classification and presentation of changes in restricted cash and cash equivalents in the statement of cash flows. The Company will adopt the new guidance in the first quarter of fiscal 2019 using the retrospective transition method for each period presented. At June 24, 2018, the Company had restricted cash and cash equivalents of $2.0 billion related to funds deposited as collateral for outstanding letters of credit in connection with the NXP Purchase Agreement (Note 8), and $2.8 billion related to irrevocably deposited cash to redeem notes in July 2018 (Note 5). Otherwise, the Company does not expect the effects of the retrospective adoption to have a material impact on its consolidated statements of cash flows.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2. Composition of Certain Financial Statement Items

Inventories (in millions)

	June 24, 2018	September 24, 2017
Raw materials	$ 82	$ 103
Work-in-process	666	799
Finished goods	1,037	1,133
	$ 1,785	$ 2,035

Other Current Assets (in millions)

	June 24, 2018	September 24, 2017
Deposit to redeem long-term debt (Note 5)	$ 2,836	$ —
Other	624	618
	$ 3,460	$ 618

Other Current Liabilities (in millions)

	June 24, 2018	September 24, 2017
Customer incentives and other customer-related liabilities	$ 3,112	$ 2,804
Accrual for EC fine (Note 6)	1,166	—
Income taxes payable	448	312
Accrual for TFTC fine (Note 6)	154	778
Other	699	862
	$ 5,579	$ 4,756

Other Income, Costs and Expenses. Other expenses in the three and nine months ended June 24, 2018 included $112 million and $422 million, respectively, in restructuring and restructuring-related charges related to the Company's Cost Plan (Note 9). Other expenses in the nine months ended June 24, 2018 also included a $1.2 billion charge related to the European Commission (EC) fine (Note 6).

Other expenses in the nine months ended June 25, 2017 consisted of a $927 million charge related to the KFTC fine, including related foreign currency losses, and $35 million in restructuring and restructuring-related charges related to the Company's Strategic Realignment Plan.

Investment and Other Income, Net (in millions)

	Three Months Ended		Nine Months Ended	
	June 24, 2018	June 25, 2017	June 24, 2018	June 25, 2017
Interest and dividend income	$ 182	$ 147	$ 461	$ 466
Net realized gains on marketable securities	10	124	24	330
Net realized gains on other investments	16	15	77	45
Impairment losses on marketable securities	—	(2)	(1)	(127)
Impairment losses on other investments	(19)	(13)	(39)	(36)
Net (losses) gains on derivative investments	(30)	4	(21)	25

Equity in net losses of investees	(28)	(31)	(67)	(42)
Net gains (losses) on foreign currency transactions	112	(26)	20	(26)
	$243	$ 218	$454	$ 635

QUALCOMM
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NOTES TO
CONDENSED
CONSOLIDATED
FINANCIAL
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Note 3. Income Taxes
On December 22, 2017, tax reform legislation known as the Tax Cuts and Jobs Act (the Tax Legislation) was enacted in the United States (U.S.). The Tax Legislation significantly revises the U.S. corporate income tax by, among other things, lowering the corporate income tax rate to 21%, implementing a modified territorial tax system and imposing a one-time repatriation tax on deemed repatriated earnings and profits of U.S.-owned foreign subsidiaries (the Toll Charge). As a fiscal-year taxpayer, certain provisions of the Tax Legislation impacted the Company in fiscal 2018, including the change in the corporate income tax rate and the Toll Charge, while other provisions will be effective starting at the beginning of fiscal 2019, including the implementation of a modified territorial tax system. The U.S. federal income tax rate reduction was effective as of January 1, 2018. Accordingly, the Company’s federal statutory income tax rate for fiscal 2018 reflects a blended rate of approximately 25%.
Pursuant to the Securities and Exchange Commission Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, given the amount and complexity of the changes in tax law resulting from the Tax Legislation, the Company has not finalized the accounting for the income tax effects of the Tax Legislation. This includes the provisional amounts recorded related to the Toll Charge, the remeasurement of deferred taxes and the change in the Company’s indefinite reinvestment assertion. Further, the Company is in the process of analyzing the effects of new taxes due on certain foreign income, such as GILTI (global intangible low-taxed income), BEAT (base-erosion anti-abuse tax) and FDII (foreign-derived intangible income), and limitations on interest expense deductions (if certain conditions apply), all of which are effective starting in fiscal 2019, as well as other provisions of the Tax Legislation. The Company has elected to account for GILTI as period costs if and when incurred. As a result of recognizing the impact of the Tax Legislation in income tax expense (benefit), certain tax effects, which were nominal, were stranded in accumulated other comprehensive income, and the Company will not reclassify such amounts to retained earnings. The impact of the Tax Legislation may differ from this estimate, possibly materially, during the remainder of the one-year measurement period due to, among other things, further refinement of the Company’s calculations, changes in interpretations and assumptions the Company has made, guidance that may be issued and actions the Company may take as a result of the Tax Legislation.
The Company has preliminarily accounted for the effects of the Tax Legislation, which resulted in a charge of $5.73 billion to income tax expense recorded discretely in the first nine months of fiscal 2018, comprised of $5.3 billion related to the estimated Toll Charge and $412 million resulting from the estimated impact of remeasurement of U.S. deferred tax assets and liabilities that existed at the end of fiscal 2017 at a lower enacted corporate income tax rate. These amounts included a $135 million tax benefit recorded in the third quarter of fiscal 2018 related to the remeasurement of a U.S. deferred tax liability that was established as a result of a change in one of the Company’s tax positions due to Tax Legislation. In addition, the Company recorded $12 million net tax expense discretely in the third quarter of fiscal 2018 related to refining estimates associated with the Toll Charge and impact of remeasurement of U.S. deferred tax assets and liabilities.
The Toll Charge is based on the Company’s post-1986 earnings and profits of U.S.-owned foreign subsidiaries through December 31, 2017 for which the Company had previously deferred U.S. income taxes. The Company has not yet finalized its calculation of the total post-1986 foreign earnings and profits for the respective foreign subsidiaries. Further, the Toll Charge is based in part on the amount of those earnings held in cash and other specific assets. The Company remeasured its deferred tax assets and liabilities that existed at the end of fiscal 2017 based on the income tax rate at which they are expected to reverse, which primarily assumes the reduced income tax rate of 21% applicable in fiscal 2019, resulting in a reduction to noncurrent net deferred tax assets of $412 million in the first nine months of

fiscal 2018.

As of December 24, 2017, the Company no longer considers available cash balances that existed at the end of fiscal 2017 related to undistributed pre-fiscal 2018 earnings and profits of certain U.S.-owned foreign subsidiaries to be indefinitely reinvested and recorded a tax expense of $92 million related to foreign withholding taxes during the first nine months of fiscal 2018. The Company otherwise continues to consider other undistributed earnings of certain U.S.-owned foreign subsidiaries to be indefinitely reinvested based on its current plans for use and/or investment outside of the U.S., and therefore, no liability has been recorded for such taxes. However, as a result of the Tax Legislation, the Company is reassessing its intentions related to its indefinite reinvestment assertion. Should the Company decide to no longer indefinitely reinvest such earnings outside the U.S., the Company would have to adjust the income tax provision in the period such determination is made.

As a result of the Toll Charge imposed by the Tax Legislation, the Company expects to fully utilize all of its unused federal tax credits that existed at the end of fiscal 2017 of $1.4 billion, which resulted in a reduction to noncurrent deferred tax assets in the first quarter of fiscal 2018, and the federal tax credits that are expected to be generated in fiscal 2018. The Company will elect to pay the Toll Charge, interest free, over a period of eight years, with payments beginning on January

QUALCOMM
Incorporated
NOTES TO
CONDENSED
CONSOLIDATED
FINANCIAL
STATEMENTS
(Unaudited)

15, 2019. The Company did not discount the amount of the Toll Charge. The cash amount the Company currently estimates will be paid for the Toll Charge, net of tax credit carryforwards and expected tax credits estimated to be generated in fiscal 2018, is $2.7 billion. The estimated first installment of $215 million is due on January 15, 2019 and was included in other current liabilities. The remaining liability was included in noncurrent income taxes payable.

During the third quarter of fiscal 2018, the Company entered into a new tax incentive agreement in Singapore that results in a reduced tax rate from March 2017 through March 2022, provided that the Company meets specified employment and investment criteria in Singapore. The Company’s Singapore tax rate will increase in fiscal 2022 as a result of expiration of these incentives and again in March 2027 upon the expiration of tax incentives under a prior agreement. As a result of this new tax incentive, the Company’s estimated income tax expense for fiscal 2018 was reduced by approximately $126 million.

The Company estimates its annual effective income tax rate to be approximately 264% for fiscal 2018, as compared to the 18% effective income tax rate for fiscal 2017, primarily as a result of the estimated charge of $5.82 billion recorded to income tax expense in the first nine months of fiscal 2018 related to the combined effect of the Toll Charge, the remeasurement of deferred tax assets and liabilities and the Company’s decision to no longer indefinitely reinvest certain foreign earnings, all of which resulted from the Tax Legislation. The estimated annual effective tax rate for fiscal 2018 was also impacted by the EC fine (Note 6) recorded in the first quarter of fiscal 2018, which is not deductible for tax purposes and is attributable to a foreign jurisdiction. Tax benefits from foreign income taxed at rates lower than rates in the U.S. are expected to be approximately 37% in fiscal 2018, compared to 32% in fiscal 2017, primarily due to lower estimated U.S. revenues principally related to decreased royalty revenues from Apple’s contract manufacturers, an increase in the allocation of expenses to the Company’s U.S. operations and the new tax incentive in Singapore, partially offset by the lower U.S. federal statutory income tax rate enacted by the Tax Legislation. The estimated annual effective tax rate for fiscal 2018 also reflects a blended U.S. federal statutory income tax rate of 25% as a result of the Tax Legislation. The annual effective tax rate of 18% for fiscal 2017 reflected the KFTC and TFTC fines (Note 6), which were not deductible for tax purposes and were each attributable to the U.S. and foreign jurisdictions.

The effective tax rate of 28% benefit for the third quarter of fiscal 2018 was lower than the estimated annual effective tax rate primarily due to the estimated charge of $5.95 billion recorded discretely to income tax expense in the first six months of fiscal 2018 related to the effects of certain components of the Tax Legislation and the EC fine recorded in the first quarter of fiscal 2018, as well as tax benefits recorded in the third quarter of fiscal 2018 resulting from an increase in the allocation of expenses to the Company’s U.S. operations and the new tax incentive in Singapore.

Unrecognized tax benefits were $356 million and $372 million at June 24, 2018 and September 24, 2017, respectively. The Company believes that it is reasonably possible that the total amounts of unrecognized tax benefits at June 24, 2018 may increase or decrease in the next 12 months.

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions, and is currently under examination by various tax authorities worldwide, most notably in countries where the Company earns a routine return and tax authorities believe substantial value-add activities are performed. These examinations are at various stages with respect to assessments, claims, deficiencies and refunds, many of which are open for periods after fiscal 2000. The Company continually assesses the likelihood and amount of potential adjustments and adjusts the income tax provision, income taxes payable and deferred taxes in the period in which the facts give rise to a revision become known. As of June 24, 2018, the Company believes that adequate amounts have been reserved for based on facts known. However, the final determination of tax audits and any related legal proceedings could materially differ from amounts reflected in the Company’s income tax provision and the related accruals.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 4. Stockholders' Equity

Changes in stockholders' equity in the nine months ended June 24, 2018 were as follows (in millions):

	Total Stockholders' Equity
Balance at September 24, 2017	$ 30,746
Net loss	(4,371)
Other comprehensive loss	(61)
Common stock issued under employee benefit plans and related tax benefits	393
Share-based compensation	699
Tax withholdings related to vesting of share-based payments	(273)
Dividends	(2,640)
Stock repurchases	(1,425)
Balance at June 24, 2018	$ 23,068

Accumulated Other Comprehensive Income. Changes in the components of accumulated other comprehensive income, net of income taxes, in stockholders' equity in the nine months ended June 24, 2018 were as follows (in millions):

	Foreign Currency Translation Adjustment	Noncredit Other-than-Temporary Impairment Losses and Subsequent Changes in Fair Value for Certain Available-for-Sale Debt Securities	Net Unrealized Gain (Loss) on Other Available-for-Sale Securities	Net Unrealized (Loss) Gain on Derivative Instruments	Other Gains	Total Accumulated Other Comprehensive Income
Balance at September 24, 2017	$ 147	$ 23	$ 218	$ (8)	$ 4	$ 384
Other comprehensive (loss) income before reclassifications	(64)	—	2	(3)	—	(65)
Reclassifications from accumulated other comprehensive income	—	1	(7)	10	—	4
Other comprehensive (loss) income	(64)	1	(5)	7	—	(61)
Balance at June 24, 2018	$ 83	$ 24	$ 213	$ (1)	$ 4	$ 323

Reclassifications from accumulated other comprehensive income related to available-for-sale securities were negligible in each the three and nine months ended June 24, 2018 and $71 million and $118 million in the three and nine months ended June 25, 2017, respectively, and were recorded in investment and other income, net (Note 2).

Stock Repurchase Program. On May 9, 2018, the Company announced a stock repurchase program authorizing it to repurchase up to $10 billion of the Company's common stock. The stock repurchase program has no expiration date. The $10 billion stock repurchase program replaced a $15 billion stock repurchase program announced on March 9, 2015, of which $1.2 billion remained authorized for repurchase under the prior program. In the nine months ended June 24, 2018 and June 25, 2017, the Company repurchased and retired 24.2 million and 16.7 million shares for $1.4 billion and $1.0 billion, respectively, before commissions. At June 24, 2018, $9.0 billion remained authorized for repurchase under the May 2018 stock repurchase program.

If the Company has not received regulatory approval by the State Administration for Market Regulation in China (SAMR) or other material developments have not occurred, the Company expects to terminate the proposed acquisition of NXP Semiconductors N.V. (NXP) by Qualcomm River Holdings B.V. (Qualcomm River Holdings), an indirect, wholly owned subsidiary of QUALCOMM Incorporated (the NXP Acquisition) after July 25, 2018 at 11:59 p.m. New York time

13

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(Note 8). In the event the NXP Acquisition is terminated, the Company intends to implement a stock repurchase program to repurchase up to $30 billion of the Company's outstanding common stock. This new stock repurchase program, if implemented, will have no expiration date and will replace the May 2018 stock repurchase program.

Dividends. On July 12, 2018, the Company announced a cash dividend of $0.62 per share on the Company's common stock, payable on September 26, 2018 to stockholders of record as of the close of business on September 5, 2018. In the nine months ended June 24, 2018 and June 25, 2017, dividends charged to retained earnings were as follows (in millions, except per share data):

	2018		2017	
	Per Share	Total	Per Share	Total
First quarter	$0.57	$862	$0.53	$801
Second quarter	0.57	857	0.53	798
Third quarter	0.62	921	0.57	858
	$1.76	$2,640	$1.63	$2,457

Employee Benefit Plans. On March 23, 2018, the Company's stockholders approved an amendment to the Amended and Restated QUALCOMM Incorporated 2001 Employee Stock Purchase Plan to increase the share reserve by 30,000,000 shares to approximately 101,709,000.

Note 5. Debt

Revolving Credit Facility. The Company has an Amended and Restated Revolving Credit Facility (2016 Amended and Restated Revolving Credit Facility) that provides for unsecured revolving facility loans, swing line loans and letters of credit in an aggregate amount of up to $5.0 billion, of which $530 million and $4.47 billion will expire in February 2020 and November 2021, respectively. Proceeds from the 2016 Amended and Restated Revolving Credit Facility, if drawn, are expected to be used for general corporate purposes. At June 24, 2018 and September 24, 2017, the Company had not borrowed any funds under the 2016 Amended and Restated Revolving Credit Facility.

Commercial Paper Program. The Company has an unsecured commercial paper program, which provides for the issuance of up to $5.0 billion of commercial paper. Net proceeds from this program are used for general corporate purposes. Maturities of commercial paper can range from 1 day to up to 397 days. At June 24, 2018 and September 24, 2017, the Company had $3.2 billion and $999 million, respectively, of outstanding commercial paper included in short-term debt with a weighted-average interest rate of 2.34% and 1.19%, respectively, which included fees paid to the commercial paper dealers, and weighted-average remaining days to maturity of 46 days and 45 days, respectively. The carrying value of the outstanding commercial paper approximated its estimated fair value at June 24, 2018 and September 24, 2017.

NXP-Related Credit and Term Loan Facilities. If the Company has not received regulatory approval from SAMR or other material developments have not occurred, the Company expects to terminate the NXP Acquisition after July 25, 2018 at 11:59 p.m. New York time (Note 8). As a result, the following credit agreements are expected to remain undrawn and terminate in accordance with their terms.

The Company is party to a credit agreement, as amended, that provides for senior unsecured delayed-draw revolving facility loans in an aggregate amount of $3.0 billion (as amended, the 2018 Revolving Credit Facility). Proceeds from the 2018 Revolving Credit Facility, if drawn, will be used in part to finance the NXP Acquisition and for general corporate purposes. Commitments under the 2018 Revolving Credit Facility expire on the first to occur of (i) the termination of Qualcomm River Holdings's obligation to consummate the proposed acquisition of NXP, (ii) if the closing date under the 2018 Revolving Credit Facility has not occurred, the date that is five business days following July 25, 2018 and (iii) the termination of the commitments in accordance with the provisions of the 2018 Revolving Credit Facility providing for voluntary and mandatory commitment reductions. In the event the NXP Acquisition is terminated, these commitments will expire. Loans under the 2018 Revolving Credit Facility, if drawn, will mature on December 31, 2018 and will bear interest, at the option of the Company, at either the reserve-adjusted Eurocurrency Rate (determined in accordance with the 2018 Revolving Credit Facility) or the Base Rate (determined in accordance with the 2018 Revolving Credit Facility), in each case plus an applicable margin based on the Company's long-term unsecured senior, non-credit enhanced debt ratings. The initial margins over the reserve-adjusted Eurocurrency Rate and the Base Rate based on Qualcomm's debt ratings as of June 24, 2018 will be 0.75% and 0.00% per annum, respectively. The 2018 Revolving Credit Facility has a ticking fee, which is based

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

on Qualcomm's debt ratings and initially accrues at a rate of 0.05% per annum commencing on March 6, 2018. At June 24, 2018, the Company had not borrowed any funds under the 2018 Revolving Credit Facility.

The Company is party to a credit agreement, as amended, that provides for senior unsecured delayed-draw term facility loans in an aggregate amount of $4.0 billion (as amended, the 2016 Term Loan Facility). Proceeds from the 2016 Term Loan Facility, if drawn, will be used to finance the NXP Acquisition. Commitments under the 2016 Term Loan Facility expire on the first to occur of (i) the consummation of the proposed acquisition of NXP without using loans under the 2016 Term Loan Facility, (ii) the termination of Qualcomm River Holdings's obligation to consummate the proposed acquisition of NXP and (iii) the date that is five business days following July 25, 2018. In the event the NXP Acquisition is terminated, these commitments will expire. At June 24, 2018 and September 24, 2017, the Company had not borrowed any funds under the 2016 Term Loan Facility.

The Company is party to a credit agreement, as amended, that provides for senior unsecured delayed-draw term facility loans in an aggregate amount of $7.0 billion (as amended, the 2018 Term Loan Facility). Proceeds from the 2018 Term Loan Facility, if drawn, will be used in part to finance the NXP Acquisition and for general corporate purposes. Commitments under the 2018 Term Loan Facility expire on the first to occur of (i) the consummation of the proposed acquisition of NXP without using loans under the 2018 Term Loan Facility, (ii) the termination of Qualcomm River Holdings's obligation to consummate the proposed acquisition of NXP, (iii) the date that is five business days following July 25, 2018 and (iv) the termination of the commitments in accordance with the provisions of the 2018 Term Loan Facility providing for voluntary and mandatory commitment reductions. In the event the NXP Acquisition is terminated, these commitments will expire. Loans under the 2018 Term Loan Facility, if drawn, will mature on December 31, 2018 and will bear interest, at the option of the Company, at either the reserve-adjusted Eurocurrency Rate (determined in accordance with the 2018 Term Loan Facility) or the Base Rate (determined in accordance with the 2018 Term Loan Facility), in each case plus an applicable margin based on the Company's long-term unsecured senior, non-credit enhanced debt ratings. The initial margins over the reserve-adjusted Eurocurrency Rate and the Base Rate based on Qualcomm's debt ratings as of June 24, 2018 will be 0.875% and 0.00% per annum, respectively. The 2018 Term Loan Facility has a ticking fee, which is based on Qualcomm's debt ratings and initially accrues at a rate of 0.05% per annum commencing on March 6, 2018. At June 24, 2018, the Company had not borrowed any funds under the 2018 Term Loan Facility.

Long-term Debt. In May 2018, the Company initiated private offerings to exchange the Company's floating-rate notes due 2019, floating-rate notes due 2020, fixed-rate 1.85% notes due 2019 and fixed-rate 2.10% notes due 2020 (collectively, the Old Notes) issued in May 2017 that were subject to special mandatory redemption provisions. The Company offered certain eligible holders of the Old Notes the option to exchange Old Notes for (i) new notes that have the same principal amount and terms of the Old Notes, except for a new special mandatory redemption date of November 1, 2018 and maturity dates that are one day after the applicable maturity dates for the applicable series of Old Notes and (ii) a cash fee of 0.25% of the principal amount of the Old Notes. For holders not eligible to participate in the exchanges, the Company offered to repurchase the Old Notes pursuant to cash tender offers for 100.25% of the principal amount of the Old Notes. The offers to exchange and offers to repurchase the Company's 2.10% fixed-rate notes due 2020 were not accepted because the amount of such notes validly tendered and not withdrawn in the applicable exchange offer was not sufficient to meet the minimum tender condition. On May 31, 2018, the Company exchanged $122 million of Old Notes for new notes and repurchased $71 million of Old Notes in the aggregate pursuant to the offers to exchange and the offers to repurchase. Also on May 31, 2018, the Company called for full redemption of all of its then-outstanding 1.85% fixed-rate notes due 2019 and 2.10% fixed-rate notes due 2020 pursuant to the optional redemption provision in the fixed-rate notes, and irrevocably deposited cash of $2.8 billion with the trustee of the notes, which represented an amount sufficient to satisfy and discharge such fixed-rate notes in full. On June 8, 2018, the Company called for full redemption all of its then-outstanding floating-rate notes due 2019 and floating-rate notes due 2020 pursuant to the special mandatory redemption provisions in the floating-rate notes. On July 2, 2018, $2.6 billion was paid to the holders of the fixed-rate notes in full redemption of such notes out of the $2.8 billion in cash previously deposited with the trustee, with the excess amount then refunded to the Company. On July 6, 2018, $1.2 billion was paid to the holders of the floating-rate notes in full redemption of such notes. At June 24, 2018, the $2.8 billion of irrevocably deposited cash was included in other current assets and the Old Notes redeemed in July 2018 were included in short-term debt.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table provides a summary of the Company’s long-term debt (in millions, except percentages):

	June 24, 2018		September 24, 2017	
	Amount	Effective Rate	Amount	Effective Rate
May 2015 Notes				
Floating-rate three-month LIBOR plus 0.27% notes due May 18, 2018	$—		$250	1.65%
Floating-rate three-month LIBOR plus 0.55% notes due May 20, 2020	250	2.94%	250	1.92%
Fixed-rate 1.40% notes due May 18, 2018	—		1,250	1.93%
Fixed-rate 2.25% notes due May 20, 2020	1,750	3.08%	1,750	2.20%
Fixed-rate 3.00% notes due May 20, 2022	2,000	3.66%	2,000	2.65%
Fixed-rate 3.45% notes due May 20, 2025	2,000	3.46%	2,000	3.46%
Fixed-rate 4.65% notes due May 20, 2035	1,000	4.74%	1,000	4.74%
Fixed-rate 4.80% notes due May 20, 2045	1,500	4.71%	1,500	4.71%
May 2017 Notes				
Floating-rate three-month LIBOR plus 0.36% notes due May 20, 2019	695	3.88%	750	1.80%
Floating-rate three-month LIBOR plus 0.45% notes due May 20, 2020	485	4.54%	500	1.86%
Floating-rate three-month LIBOR plus 0.73% notes due January 30, 2023	500	3.16%	500	2.11%
Fixed-rate 1.85% notes due May 20, 2019	1,127	3.55%	1,250	2.00%
Fixed-rate 2.10% notes due May 20, 2020	1,500	4.09%	1,500	2.19%
Fixed-rate 2.60% notes due January 30, 2023	1,500	2.70%	1,500	2.70%
Fixed-rate 2.90% notes due May 20, 2024	1,500	3.01%	1,500	3.01%
Fixed-rate 3.25% notes due May 20, 2027	2,000	3.46%	2,000	3.46%
Fixed-rate 4.30% notes due May 20, 2047	1,500	4.74%	1,500	4.47%
May 2018 Notes				
Floating-rate three-month LIBOR plus 0.36% notes due May 21, 2019	52	3.08%	—	
Floating-rate three-month LIBOR plus 0.45% notes due May 21, 2020	14	3.00%	—	
Fixed-rate 1.85% notes due May 21, 2019	56	2.28%	—	
Total principal	19,429		21,000	
Unamortized discount, including debt issuance costs	(90)		(106)	
Hedge accounting fair value adjustments	(48)		—	
Total	$19,291		$20,894	
Reported as:				
Short-term debt	$3,913		$1,496	
Long-term debt	15,378		19,398	
Total	$19,291		$20,894	

At June 24, 2018 and September 24, 2017, the aggregate fair value of the notes, based on Level 2 inputs, was approximately $18.9 billion and $21.5 billion, respectively.

The Company’s floating-rate notes due 2019, floating-rate notes due 2020 and 1.85% fixed-rate notes due 2019 issued in May 2018 for an aggregate principal amount of $122 million are subject to a special mandatory redemption at a price equal to 101% of the aggregate principal amount, plus accrued and unpaid interest to, but excluding, the date of such mandatory redemption (the May 2018 Notes). The redemption is required on the first to occur of (i) the termination of the NXP purchase agreement or (ii) November 1, 2018, if the NXP transaction has not closed as of such date. In the event the NXP Acquisition is terminated, the May 2018 Notes will be redeemed in accordance with their terms. The Company may redeem the fixed-rate notes at any time in whole, or from time to time in part, at specified make-whole premiums as defined in the applicable form of note. The Company may not redeem the other floating-rate notes prior to maturity. The obligations under the notes rank equally in right of payment with all of the Company’s other senior unsecured indebtedness and will effectively rank junior to all liabilities of the Company’s subsidiaries.

QUALCOMM
Incorporated
NOTES TO
CONDENSED
CONSOLIDATED
FINANCIAL
STATEMENTS
(Unaudited)

At June 24, 2018, the Company had outstanding interest rate swaps with an aggregate notional amount of $1.8 billion related to the May 2015 Notes, which effectively converted approximately 43% and 50% of the fixed-rate notes due in 2020 and 2022, respectively, into floating-rate notes. The net gains and losses on the interest rate swaps, as well as the offsetting gains or losses on the related fixed-rate notes attributable to the hedged risks, are recorded in earnings in interest expense in the current period. The Company did not enter into similar interest rate swaps in connection with issuance of the May 2017 Notes or May 2018 Notes.

The effective interest rates for the notes include the interest on the notes, amortization of the discount, which includes debt issuance costs, and if applicable, adjustments related to hedging. Interest is payable in arrears quarterly for the floating-rate notes and semi-annually for the fixed-rate notes. Cash interest paid related to the Company's commercial paper program and long-term debt, net of cash received from the related interest rate swaps, was $594 million and $289 million in the nine months ended June 24, 2018 and June 25, 2017, respectively.

Debt Covenants. The 2016 Amended and Restated Revolving Credit Facility, the 2016 Term Loan Facility, the 2018 Revolving Credit Facility and the 2018 Term Loan Facility require that the Company comply with certain covenants, including one financial covenant to maintain a ratio of consolidated earnings before interest, taxes, depreciation and amortization to consolidated interest expense, as defined in each of the respective agreements, of not less than three to one at the end of each fiscal quarter. The Company is not subject to any financial covenants under the notes nor any covenants that would prohibit the Company from incurring additional indebtedness ranking equal to the notes, paying dividends, issuing securities or repurchasing securities issued by it or its subsidiaries. At June 24, 2018 and September 24, 2017, the Company was in compliance with the applicable covenants under each facility outstanding at such time.

Note 6. Commitments and Contingencies

Legal and Regulatory Proceedings.

ParkerVision, Inc. v. QUALCOMM Incorporated: On May 1, 2014, ParkerVision filed a complaint against the Company in the United States District Court for the Middle District of Florida alleging that certain of the Company's products infringe certain ParkerVision patents. On August 21, 2014, ParkerVision amended the complaint, captioned ParkerVision, Inc. v. QUALCOMM Incorporated, Qualcomm Atheros, Inc., HTC Corporation, HTC America, Inc., Samsung Electronics Co., LTD., Samsung Electronics America, Inc. and Samsung Telecommunications America, LLC, broadening the allegations. ParkerVision alleged that the Company infringes 11 ParkerVision patents and seeks damages and injunctive and other relief. On December 3, 2015, ParkerVision dismissed six patents from the lawsuit and granted the Company and all other defendants a covenant not to assert those patents against any existing products. On February 2, 2016, after agreement among the parties, the District Court stayed the remainder of the case pending the resolution of the complaint filed by ParkerVision against the Company and other parties with the United States International Trade Commission (ITC) described below. Subsequently, ParkerVision announced that it had reached a settlement with Samsung which dismissed the Samsung entities from the District Court case. The Company had previously filed Inter-Partes Review petitions with the United States Patent and Trademark Office (USPTO) to invalidate all asserted claims of several of the remaining patents. On March 7, 2017, the USPTO decided in the Company's favor with respect to all asserted claims of one such patent. After the ITC action described below was closed, and upon agreement among the parties, on May 24, 2017, the District Court further stayed the District Court case pending ParkerVision's appeal of the USPTO's invalidation decisions. A hearing on ParkerVision's appeal before the United States Court of Appeals for the Federal Circuit is scheduled for August 7, 2018.

On December 14, 2015, ParkerVision filed another complaint against the Company in the United States District Court for the Middle District of Florida alleging patent infringement. Apple Inc., Samsung Electronics Co., LTD., Samsung Electronics America, Inc., Samsung Telecommunications America, LLC, Samsung Semiconductor, Inc., LG Electronics, Inc., LG Electronics U.S.A., Inc. and LG Electronics MobileComm U.S.A., Inc. were also named defendants. The complaint asserts that certain of the Company's products infringe four additional ParkerVision patents and seeks damages and other relief. On December 15, 2015, ParkerVision filed a complaint with the ITC pursuant to Section 337 of the Tariff Act of 1930 against the same parties asserting the same four patents. The complaint seeks an exclusion order barring the importation of products that use either of two Company transceivers or one Samsung transceiver and a cease and desist order preventing the Company and the other defendants from carrying out commercial activities within the United States related to such products. On January 13, 2016, the Company served its answer to the District Court complaint. On January 15, 2016, the ITC instituted an investigation. On February 12, 2016, the District Court case was stayed pending completion of the ITC investigation. Subsequently, ParkerVision announced that it had reached a settlement with Samsung which dismissed the Samsung entities from the ITC investigation and related District Court case. On February 2, 2017, the ITC granted ParkerVision's motion to drop all but one patent and one accused product from the ITC investigation. On March 12, 2017, one day before the ITC

QUALCOMM
Incorporated
NOTES TO
CONDENSED
CONSOLIDATED
FINANCIAL
STATEMENTS
(Unaudited)

hearing was scheduled to begin, ParkerVision moved to withdraw its ITC complaint in its entirety. The Company and the other defendants did not oppose the withdrawal of the complaint. On April 28, 2017, the ITC formally closed the investigation. On May 4, 2017, ParkerVision filed a motion to reopen the related District Court Case, and on May 26, 2017, the District Court granted the motion. On March 16, 2018, the parties agreed to dismiss three of ParkerVision’s patents from the case without prejudice, leaving only one patent at issue. A claim construction hearing is scheduled for August 31, 2018. No trial date has been set.

Apple Inc. (Apple) v. QUALCOMM Incorporated: On January 20, 2017, Apple filed a complaint against the Company in the United States District Court for the Southern District of California seeking declarations with respect to several of the Company’s patents and alleging that the Company breached certain agreements and violated federal antitrust and California state unfair competition laws. In its initial complaint, Apple sought declaratory judgments of non-infringement by Apple of nine of the Company’s patents, or in the alternative, a declaration of royalties Apple must pay for the patents. Apple further sought a declaration that the Company’s sale of baseband chipsets exhausts the Company’s patent rights for patents embodied in those chipsets. Separately, Apple sought to enjoin the Company from seeking excessive royalties from Apple and to disgorge royalties paid by Apple’s contract manufacturers that the court finds were not fair, reasonable and non-discriminatory (FRAND). Apple also claimed that the Company’s refusal to make certain payments to Apple under a Business Cooperation and Patent Agreement (Cooperation Agreement) constitutes a breach of contract in violation of California law and sought damages in the amount of the unpaid payments, alleged to be approximately $1 billion. In addition, Apple claimed that the Company has refused to deal with competitors in contravention of the Company’s agreements with applicable standard setting organizations, has used its market position to impose contractual obligations on Apple that prevented Apple from challenging the Company’s licensing practices, has tied the purchase of the Company’s CDMA-enabled and “premium” LTE-enabled chipsets to licensing certain of the Company’s patents and has required Apple to purchase baseband chipsets exclusively from the Company as a condition of the Company’s payment to Apple of certain rebates, in violation of Section 2 of the Sherman Act and the California Unfair Competition Law. Apple sought injunctive relief with respect to these claims and a judgment awarding its expenses, costs and attorneys’ fees.

On April 10, 2017, the Company filed its Answer and Counterclaims (amended on May 24, 2017) in response to Apple’s complaint denying Apple’s claims and asserting claims against Apple. The counterclaims against Apple include tortious interference with the Company’s long-standing Subscriber Unit License Agreements (SULAs) with third-party contract manufacturers of Apple devices, causing those contract manufacturers to withhold certain royalty payments owed to the Company and violate their audit obligations; breach of contract and the implied covenant of good faith and fair dealing relating to the parties’ Cooperation Agreement; unjust enrichment and declaratory relief relating to the Cooperation Agreement; breach of contract based on Apple’s failure to pay amounts owed to the Company under a Statement of Work relating to a high-speed feature of the Company’s chipsets; breach of the parties’ software agreement; and violation of California Unfair Competition Law based on Apple’s threatening the Company to prevent it from promoting the superior performance of the Company’s own chipsets. The Company also seeks declaratory judgments that the Company has satisfied its FRAND commitments with respect to Apple, and that the Company’s SULAs with the contract manufacturers do not violate either competition law or the Company’s FRAND commitments. On June 19, 2017, Apple filed a Partial Motion to Dismiss the Company’s counterclaim for violation of the California Unfair Competition Law. The court granted that motion on November 8, 2017. On June 20, 2017, Apple filed an Answer and Affirmative Defenses to the rest of the Company’s counterclaims, and also filed an Amended Complaint reiterating all of the original claims and adding claims for declaratory judgments of invalidity of the nine patents that are subject to declaratory judgment claims in the original complaint, adding new declaratory judgment claims for non-infringement, invalidity and a declaration of royalties for nine more patents. Apple also added claims for declaratory judgments that certain of the Company’s agreements are unenforceable. On July 21, 2017, the Company filed an Answer to Apple’s Amended Complaint as well as a motion to dismiss the new declaratory judgment claims for non-infringement, invalidity and a declaration of royalties for the nine additional patents. The court granted the Company’s motion on November 8, 2017.

On May 17, 2017, the Company filed a complaint (captioned QUALCOMM Incorporated v. Compal Electronics, Inc. et al.) in the United States District Court for the Southern District of California against Compal Electronics, Inc. (Compal), FIH Mobile, Ltd., Hon Hai Precision Industry Co., Ltd. (together with FIH Mobile, Ltd., Foxconn), Pegatron Corporation (Pegatron) and Wistron Corporation (Wistron) asserting claims for injunctive relief, specific performance, declaratory relief and damages stemming from the defendants’ breach of contracts by ceasing the payment of royalties for iPhones and other devices which they manufacture for Apple. On July 17, 2017, Compal, Foxconn, Pegatron and Wistron each filed third-party complaints for contractual indemnity against Apple seeking to join Apple as a party to the action. On July 18, 2017, Apple filed an answer to these third-party complaints acknowledging its indemnity agreements and consenting to be joined. On July

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

18, 2017, the defendants filed an Answer and Counterclaims to the complaint, asserting defenses and counterclaims similar to allegations previously made by Apple in the Apple Inc. v. QUALCOMM Incorporated case discussed above. In addition, the defendants asserted certain new claims, including claims under Section 1 of the Sherman Act and California's Cartwright Act. The defendants seek damages, declaratory relief, injunctive relief, restitution of certain royalties and other relief. On July 18, 2017, Apple filed a motion to consolidate this action with the Apple Inc. v. QUALCOMM Incorporated case. On September 13, 2017, the court granted Apple's consolidation motion. Fact discovery is substantially closed in these cases. A final pretrial conference is scheduled for November 30, 2018. The trials have not been scheduled.

On January 23, 2017, an Apple subsidiary in China filed two complaints against the Company in the Beijing Intellectual Property Court. On March 31, 2017, the court granted an application by Apple Inc. to join the actions as a plaintiff, and Apple amended the complaints. One of the complaints alleges a violation of China's Anti-Monopoly Law (AML complaint); the other complaint requests a determination of the terms of a patent license between the Company and Apple (FRAND complaint). The AML complaint alleges that (i) the Company has abused its dominant position in communication standard-essential patents licensing markets and certain global baseband chipset markets by charging and offering royalty terms that were excessively high; (ii) the Company refused to license certain implementers of standardized technologies, including Apple and baseband chipset manufacturers; (iii) the Company forced Apple to use only the Company's products and services; and (iv) the Company bundled licenses to standard-essential patents with licenses to non-standard-essential patents and imposed other unreasonable or discriminatory trading terms on Apple in violation of the AML. The AML complaint seeks a decree that the Company cease the alleged abuse of dominance, as well as damages in the amount of 1 billion Chinese Renminbi (approximately $154 million based on the exchange rate on June 24, 2018). The FRAND complaint makes allegations similar to the AML complaint and further alleges that the Company refused to offer licensing terms for the Company's cellular standard-essential patents consistent with the Company's FRAND licensing commitments and failed to provide to Apple certain information about the Company's patents. The FRAND complaint seeks (i) a declaration that the license terms offered to Apple by the Company for its mobile communication standard essential patents are not compliant with FRAND; (ii) an order that the Company cease its actions that allegedly violate the Company's FRAND obligations, including pricing on unfair, unreasonable and excessive terms, refusing to deal, imposing unreasonable trade conditions and failing to provide information on the Company's patents; and (iii) a determination of FRAND-compliant license terms for the Company's Chinese standard-essential patents. Apple also seeks its expenses in each of the cases. On August 3, 2017, the Company received three additional complaints filed by an Apple subsidiary and Apple Inc. against the Company in the Beijing Intellectual Property Court. The complaints seek declaratory judgments of non-infringement of three Qualcomm patents. The Company filed jurisdictional and other objections to the complaints, which the court denied on May 31, 2018. On July 5, 2018, the Company appealed the denial of its objections to the Beijing High People's Court.

On February 16, 2017, Apple and one of its Japanese subsidiaries filed four complaints against the Company in the Tokyo District Court. In three of the complaints, Apple seeks declaratory judgment of non-infringement by Apple of three of the Company's patents. Apple further seeks a declaration that the Company's patent rights with respect to those three patents are exhausted by the Company's SULAs with the contract manufacturers of Apple's devices as well as the Company's sale of baseband chipsets. Apple also seeks an award of fees. On January 30, 2018, April 27, 2018 and July 13, 2018, the court dismissed each of the three declaratory judgment complaints, finding that Apple lacked standing based on the facts it alleged in those complaints. The court has yet to rule on whether Apple has standing in the remaining complaint. On May 15, 2017, the Company learned of the fourth complaint. In that complaint, Apple and one of its Japanese subsidiaries seek damages of 100 million Japanese Yen (approximately $1 million based on the exchange rate on June 24, 2018) from the Company, based on allegations that the Company violated the Japanese Antimonopoly Act and the Japanese Civil Code. In particular, the fourth complaint alleges that (i) the Company holds a monopoly position in the market for baseband processor chipsets that implement certain cellular standards; (ii) the Company collects double royalties through its license agreements and the sale of chipsets; (iii) the Company refused to grant Apple a license on FRAND terms and forced Apple to execute a rebate agreement under unreasonable conditions; (iv) the Company refused to grant Apple a direct license; and (v) the Company demanded a license fee based on the market value of the total device. The Company has filed jurisdictional and other objections to this complaint.

On March 2, 2017, the Company learned that Apple and certain of its European subsidiaries issued a Claim Form against the Company in the UK High Court of Justice, Chancery Division, Patents Court on January 23, 2017. Apple subsequently filed an Amended Claim Form and Particulars of Claim. Both the Amended Claim Form and the Particulars of Claim allege several European competition law claims, including refusal to license competing chipmakers, failure to offer Apple a direct license to the Company’s standard-essential patents on FRAND terms, demanding excessive royalties for the Company’s

QUALCOMM
Incorporated
NOTES TO
CONDENSED
CONSOLIDATED
FINANCIAL
STATEMENTS
(Unaudited)

standard-essential patents, and demanding excessive license fees for the use of the Company's standard-essential patents in connection with chipsets purchased from the Company. Apple also seeks declarations that the Company is obliged to offer a direct patent license to Apple in respect of standard-essential patents actually practiced on fair, reasonable and non-discriminatory terms and that using the Company's chipsets does not infringe any of the Company's patents because the Company exhausted its patent rights. Finally, Apple seeks declarations that five of the Company's European (UK) patents are invalid and not essential, and an order that each of those patents be revoked.

On April 18, 2017, Apple and one of its Taiwanese subsidiaries filed a complaint against the Company in the Taiwan Intellectual Property Court alleging that the Company has abused a dominant market position in licensing wireless standard-essential patents and selling baseband chipsets, including improper pricing, refusal to deal, exclusive dealing, tying, imposing unreasonable trade terms and discriminatory treatment. The complaint seeks rulings that the Company not use the sales price of the terminal device as the royalty base for standard-essential patents; not leverage its cellular standard-essential patents to obtain licenses of its non-standard-essential patents or demand cross-licenses without proper compensation; not refuse, reduce, delay or take any other action to limit the supply of its baseband chipsets to non-licensees; that the Company must license its standard-essential patents on FRAND terms; and that the Company shall not, based on standard-essential patents, seek injunctions. The complaint also seeks damages of 10 million Taiwan Dollars (less than $1 million based on the exchange rate on June 24, 2018), among other relief.

On November 30, 2017, Apple and certain of its Chinese subsidiaries filed three patent infringement complaints against the Company in the Beijing Intellectual Property Court. Apple seeks damages and costs. The Company has filed jurisdictional objections to the complaints.

The Company believes Apple's (as well as Compal's, Foxconn's, Pegatron's and Wistron's) claims in the above matters are without merit.

QUALCOMM Incorporated v. Apple Inc.: On July 6, 2017, the Company filed a complaint against Apple in the United States District Court for the Southern District of California asserting claims for damages and injunctive relief for infringement of six of the Company's patents directed to a variety of features found in iPhone models. On July 7, 2017, the Company filed a complaint against Apple in the United States International Trade Commission (ITC) requesting that the ITC institute an investigation pursuant to Section 337 of the Tariff Act of 1930 based on Apple's infringement of the same six patents. The Company is seeking a limited exclusion order and cease and desist order against importation of iPhone models that do not contain a Qualcomm brand baseband processor. The patents have not been declared as essential to any standards organization and are not subject to commitments to license on FRAND terms. Apple filed an Answer and Counterclaims in the District Court case on September 26, 2017. On November 29, 2017, Apple filed a First Amended Answer and Counterclaims asserting that the Company's Snapdragon processors infringe eight Apple patents. On August 8, 2017, the ITC issued a notice of institution of an investigation. On August 25, 2017, the Company withdrew allegations as to one patent in both the ITC investigation and the District Court case. On April 25, 2018, the Company withdrew allegations as to two additional patents in the ITC investigation, but not the district court case, in order to satisfy certain briefing limitations and to narrow the issues for hearing. The ITC investigation evidentiary hearing by the Administrative Law Judge (ALJ) was held June 18-26, 2018. The ALJ's Initial Determination on the merits is due on September 14, 2018, and the target date for final determination by the ITC is set for January 14, 2019. A case management conference in the district court case was held on January 26, 2018. On March 2, 2018, the court granted the Company's motion to sever, for separate trial, Apple's counterclaims for patent infringement against the Company. With respect to the Company's patent claims against Apple, fact discovery closed on June 11, 2018, and a claim construction hearing is set for July 31, 2018. Trial is scheduled to begin on March 4,

2019. With respect to Apple's patent claims against the Company, fact discovery is scheduled to close on December 3, 2018. A claim construction hearing is scheduled for September 5, 2018, and trial is scheduled to begin on July 15, 2019. On June 28, 2018, Intel filed petitions with the USPTO Patent Trial and Appeal Board (PTAB) challenging the validity of one of the patents asserted in the July 7, 2017 ITC investigation and corresponding District Court case. On June 29, 2018 and July 6, 2018, Intel filed petitions with the USPTO PTAB challenging the validity of another patent asserted in the July 7, 2017 ITC investigation and corresponding District Court case. On July 3, 2018, Intel filed petitions with the USPTO PTAB challenging the validity of two additional patents asserted in the July 7, 2017 ITC investigation and corresponding District Court case.

On November 1, 2017, the Company filed a complaint against Apple in San Diego Superior Court for breach of the Master Software Agreement between the companies. The complaint recounts instances when Apple failed to protect the Company's software as required by the agreement and failed to provide sufficient information to which the Company is entitled under the agreement in order to understand whether other breaches have occurred. The complaint seeks specific performance of Apple's obligations to cooperate with an audit of its handling of the Company's software, damages and injunctive relief. Apple filed its Answer to the Complaint on December 29, 2017. Trial is scheduled to begin on April 26, 2019.

On November 29, 2017, the Company filed three additional complaints against Apple in the United States District Court for the Southern District of California alleging infringement of a total of 16 of the Company's patents. The patents have not been declared as essential to any standards organization and are not subject to commitments to license on FRAND terms. The complaints seek damages and injunctive relief. On January 22, 2018, Apple filed Answers and Counterclaims in each of these cases seeking declaratory judgments that the asserted patents are invalid and/or not infringed. Case management conferences were held on February 7, 2018 and March 1, 2018. Tutorials and presentation of claim construction arguments for two of the cases are scheduled for September 12-13, 2018 and October 10 - 11, 2018, respectively. For the case relating to the November 30, 2017 ITC investigation described below, a mandatory settlement conference is scheduled for October 19, 2018, fact discovery is scheduled to close on March 13, 2019, and trial is scheduled to begin on October 21, 2019. On June 18, 2018, Apple filed a petition with the USPTO PTAB challenging the validity of one patent asserted in the November 30, 2017 ITC investigation and the corresponding District Court case. On June 29, 2018, Apple filed petitions with the USPTO PTAB challenging the validity of another patent asserted in the November 30, 2017 ITC investigation and the corresponding District Court case. No trial date has been set for the other two cases.

On November 30, 2017, the Company filed a complaint in the ITC accusing certain Apple products of infringing five of the Company's patents. The patents have not been declared as essential to any standards organization and are not subject to commitments to license on FRAND terms. The Company seeks a limited exclusion order and cease and desist order against importation of iPhone models that do not contain a Qualcomm brand baseband processor. On January 2, 2018, the ITC instituted an investigation. The ITC investigation is scheduled for evidentiary hearing by the Administrative Law Judge (ALJ) from September 17-24, 2018. The ALJ's Initial Determination on the merits is due on January 22, 2019, and the target date for final determination by the ITC is set for May 22, 2019.

On July 17, 2017, the Company filed complaints against Apple and certain of its subsidiaries in the Federal Republic of Germany, asserting infringement of one of the Company's patents in the Mannheim District Court and infringement of another patent in the Munich District Court. On October 2, 2017, the Company filed claim extensions in these actions against Apple and certain of its subsidiaries, asserting infringement of two additional patents in the Mannheim District Court and infringement of five additional patents in the Munich District Court. On May 28, 2018, the Company filed additional claim extensions in these actions against Apple and certain of its subsidiaries, asserting infringement of three additional patents in the Mannheim District Court and infringement of one additional patent in the Munich District Court. The complaints seek remedies including, among other relief, declaratory relief confirming liability on the merits for damages and injunctive relief. The patents have not been declared as essential to any standards organization and are not subject to commitments to license on FRAND terms. Hearings are scheduled for various dates through March 2019.

On September 29, 2017, the Company filed three complaints against Apple and certain of its subsidiaries in the Beijing (China) Intellectual Property Court, asserting infringement of three of the Company's patents. The complaints seek remedies including injunctive relief and costs. The patents have not been declared as essential to any standards organization and are not subject to commitments to license on FRAND terms. On May 10, 2018 and June 21, 2018, Apple filed invalidation requests with the PRB for the three asserted patents. The PRB has not set hearing dates for these proceedings.

On November 13, 2017, the Company filed three complaints against certain of Apple’s subsidiaries in the Beijing (China) High People’s Court, asserting infringement of three of the Company’s patents. The complaints seek remedies including injunctive relief, damages and costs. The patents have not been declared as essential to any standards organization and are not subject to commitments to license on FRAND terms. On December 19, 2017, Apple’s subsidiaries filed invalidation requests with the Chinese Patent Review Board (PRB) for each of the three asserted patents. PRB hearings regarding the validity of the patents were held in April and May 2018. On May 22, 2018, Apple’s subsidiaries filed a second invalidation request with the PRB for one of the three asserted patents. The PRB has not ruled on the invalidation requests.

On November 15, 2017, the Company filed three complaints against certain of Apple’s subsidiaries in the Fuzhou (China) Intermediate People’s Court, asserting infringement of three of the Company’s patents. The complaints seek remedies including injunctive relief and costs. The patents have not been declared as essential to any standards organization and are not subject to commitments to license on FRAND terms. Apple’s subsidiaries filed invalidation requests with the PRB on December 8, 2017 for one of the patents and December 11, 2017 for the other two patents. PRB hearings regarding the validity of the patents were held in April and May 2018. On July 13, 2018, the PRB issued an order upholding the validity of

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

one of the patents subject to Apple's invalidity challenges. The PRB has not ruled on the invalidation requests with respect to the other two patents.

On January 12, 2018, the Company filed three additional complaints against Apple and certain of its subsidiaries in the Fuzhou (China) Intermediate People's Court, asserting infringement of three additional Company patents. The complaints seek remedies including injunctive relief and costs. The patents have not been declared as essential to any standards organization and are not subject to commitments to license on FRAND terms.

Also on January 12, 2018, the Company filed three complaints against certain of Apple's subsidiaries in the Jiangsu (China) High People's Court, asserting infringement of three of the Company's patents. The complaints seek remedies including injunctive relief, damages and costs. The patents have not been declared as essential to any standards organization and are not subject to commitments to license on FRAND terms. On February 5, 2018, Apple's subsidiaries filed invalidation requests with the PRB. PRB hearings regarding the validity of the patents were held in June 2018. The PRB has not ruled on the invalidation requests.

On February 2, 2018, the Company filed three complaints against certain of Apple's subsidiaries in the Qingdao (China) Intermediate People's Court, asserting infringement of three of the Company's patents. The complaints seek remedies including injunctive relief and costs. The patents have not been declared as essential to any standards organization and are not subject to commitments to license on FRAND terms. On February 26, 2018, Apple's subsidiaries filed invalidation requests with the PRB. PRB hearings regarding the validity of the patents were held in June 2018. The PRB has not ruled on the invalidation requests.

Also on February 2, 2018, the Company filed three complaints against certain of Apple's subsidiaries in the Guangzhou (China) Intermediate People's Court, asserting infringement of three of the Company's patents. The complaints seek remedies including injunctive relief and costs. The patents have not been declared as essential to any standards organization and are not subject to commitments to license on FRAND terms. On March 14, 2018, Apple's subsidiaries filed invalidation requests with the PRB. PRB hearings regarding the validity of the patents began in July 2018. The PRB has not ruled on the invalidation requests.

On June 14, 2018, the Company filed three complaints against certain of Apple's subsidiaries in the Guangdong (China) High People's Court, asserting infringement of three of the Company's patents. The complaints seek remedies including injunctive relief and costs. The patents have not been declared as essential to any standards organization and are not subject to commitments to license on FRAND terms.

The Company believes Apple's counterclaims and invalidation requests in the above matters are without merit.

3226701 Canada, Inc. v. QUALCOMM Incorporated et al: On November 30, 2015, plaintiffs filed a securities class action complaint against the Company and certain of its current and former officers in the United States District Court for the Southern District of California. On April 29, 2016, plaintiffs filed an amended complaint. On January 27, 2017, the court dismissed the amended complaint in its entirety, granting leave to amend. On March 17, 2017, plaintiffs filed a second amended complaint, alleging that the Company and certain of its current and former officers violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, by making false and misleading statements regarding the Company's business outlook and product development between November 19, 2014 and July 22, 2015. The second amended complaint sought unspecified damages, interest, attorneys' fees and other costs. On May 8, 2017, the Company filed a motion to dismiss the second amended complaint. On October 20, 2017, the court entered an order granting in part the Company's motion to dismiss, and on November 29, 2017, the court entered an order granting the remaining portions of the Company's motion to dismiss. On December 28, 2017, the plaintiffs filed an appeal to the United States Court of Appeals for the Ninth Circuit. No hearing date has been set.

The Company believes the plaintiffs' claims are without merit.

Consolidated Securities Class Action Lawsuit: On January 23, 2017 and January 26, 2017, securities class action complaints were filed by purported stockholders of the Company in the United States District Court for the Southern District of California against the Company and certain of its current and former officers and directors. The complaints alleged, among other things, that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 thereunder, by making false and misleading statements and omissions of material fact in connection with certain allegations that the Company is or was engaged in anticompetitive conduct. The complaints sought unspecified damages, interest, fees and costs. On May 4, 2017, the court consolidated the two actions and appointed lead plaintiffs. On July 3, 2017, the lead plaintiffs filed a consolidated amended complaint asserting the same basic theories of liability and requesting the same basic relief. On September 1, 2017, the defendants filed a motion to dismiss the consolidated amended complaint. The court has not yet ruled on the motion. The Company believes the plaintiffs' claims are without merit.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Camp v. Qualcomm Incorporated et al: On June 8, 2018 and June 26, 2018, securities class action complaints were filed by purported stockholders of the Company in the United States District Court for the Southern District of California against the Company and two of its current officers. The two complaints allege, among other things, that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 thereunder, by failing to disclose that the Company had made a filing with the Committee on Foreign Investment in the United States (CFIUS) in January 2018. The complaints seek unspecified damages, interest, fees and costs. Upon the appointment of lead plaintiff in the action and the filing of a First Amended Complaint, the Company anticipates filing a motion to dismiss the complaint, as it believes the plaintiffs’ claims are without merit.
Consumer Class Action Lawsuit: Since January 18, 2017, a number of consumer class action complaints have been filed against the Company in the United States District Courts for the Southern and Northern Districts of California, each on behalf of a putative class of purchasers of cellular phones and other cellular devices. Twenty-two such cases remain outstanding. In April 2017, the Judicial Panel on Multidistrict Litigation transferred the cases that had been filed in the Southern District of California to the Northern District of California. On May 15, 2017, the court entered an order appointing the plaintiffs’ co-lead counsel. On July 11, 2017, the plaintiffs filed a consolidated amended complaint alleging that the Company violated California and federal antitrust and unfair competition laws by, among other things, refusing to license standard-essential patents to its competitors, conditioning the supply of certain of its baseband chipsets on the purchaser first agreeing to license the Company’s entire patent portfolio, entering into exclusive deals with companies including Apple Inc., and charging unreasonably high royalties that do not comply with the Company’s commitments to standard setting organizations. The complaint seeks unspecified damages and disgorgement and/or restitution, as well as an order that the Company be enjoined from further unlawful conduct. On August 11, 2017, the Company filed a motion to dismiss the consolidated amended complaint. On November 10, 2017, the court denied the Company’s motion to dismiss the consolidated amended complaint, except to the extent that certain claims seek damages under the Sherman Antitrust Act. On July 5, 2018, the plaintiffs filed a motion for class certification, and a hearing on that motion is scheduled for September 27, 2018. The case is currently in the discovery stage, with discovery scheduled to close on December 28, 2018. Trial is scheduled to begin on January 19, 2019. The Company believes the plaintiffs’ claims are without merit.
Canadian Consumer Class Action Lawsuits: Since November 9, 2017, six consumer class action complaints have been filed against the Company in Canada (in the Ontario Superior Court of Justice, the Supreme Court of British Columbia, and the Quebec Superior Court), each on behalf of a putative class of purchasers of cellular phones and other cellular devices, alleging various violations of Canadian competition and consumer protection laws. The claims are similar to those in the FTC and U.S. consumer class action complaints. The complaints seek unspecified damages. The Company has not yet answered the complaints.
Japan Fair Trade Commission (JFTC) Complaint: The JFTC received unspecified complaints alleging that the Company’s business practices are, in some way, a violation of Japanese law. On September 29, 2009, the JFTC issued a cease and desist order concluding that the Company’s Japanese licensees were forced to cross-license patents to the Company on a royalty-free basis and were forced to accept a provision under which they agreed not to assert their essential patents against the Company’s other licensees who made a similar commitment in their license agreements with the Company. The cease and desist order seeks to require the Company to modify its existing license agreements with Japanese companies to eliminate these provisions while preserving the license of the Company’s patents to those companies. The Company disagrees with the conclusions that it forced its Japanese licensees to agree to any provision in the parties’ agreements and that those provisions violate the Japanese Antimonopoly Act. The Company has invoked

its right under Japanese law to an administrative hearing before the JFTC. In February 2010, the Tokyo High Court granted the Company's motion and issued a stay of the cease and desist order pending the administrative hearing before the JFTC. The JFTC has held hearings on 37 different dates. No further hearings are currently scheduled. Fines or other monetary remedies are not available in this matter.

Korea Fair Trade Commission (KFTC) Complaint: On January 4, 2010, the KFTC issued a written decision finding that the Company had violated Korean law by offering certain discounts and rebates for purchases of its CDMA chipsets and for including in certain agreements language requiring the continued payment of royalties after all licensed patents have expired. The KFTC levied a fine, which the Company paid and recorded as an expense in fiscal 2010. The Company appealed to the Seoul High Court, and on June 19, 2013, the Seoul High Court affirmed the KFTC's decision. On July 4, 2013, the Company filed an appeal with the Korea Supreme Court. There have been no material developments since then with respect to this matter.

Korea Fair Trade Commission (KFTC) Investigation: On March 17, 2015, the KFTC notified the Company that it was conducting an investigation of the Company relating to the Korean Monopoly Regulation and Fair Trade Act (MRFTA). On

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

December 27, 2016, the KFTC announced that it had reached a decision in the investigation, finding that the Company violated provisions of the MRFTA. On January 22, 2017, the Company received the KFTC's formal written decision, which found that the following conducts violate the MRFTA: (i) refusing to license, or imposing restrictions on licenses for, cellular communications standard-essential patents with competing modem chipset makers; (ii) conditioning the supply of modem chipsets to handset suppliers on their execution and performance of license agreements with the Company; and (iii) coercing agreement terms including portfolio license terms, royalty terms and free cross-grant terms in executing patent license agreements with handset makers. The KFTC's decision orders the Company to: (i) upon request by modem chipset companies, engage in good-faith negotiations for patent license agreements, without offering unjustifiable conditions, and if necessary submit to a determination of terms by an independent third party; (ii) not demand that handset companies execute and perform under patent license agreements as a precondition for purchasing modem chips; (iii) not demand unjustifiable conditions in the Company's license agreements with handset companies, and upon request renegotiate existing patent license agreements; and (iv) notify modem chipset companies and handset companies of the decision and order imposed on the Company and report to the KFTC new or amended agreements. According to the KFTC's decision, the foregoing will apply to transactions between the Company and the following enterprises: (i) handset manufacturers headquartered in Korea and their affiliate companies; (ii) enterprises that sell handsets in or to Korea and their affiliate companies; (iii) enterprises that supply handsets to companies referred to in (ii) above and the affiliate companies of such enterprises; (iv) modem chipset manufacturers headquartered in Korea and their affiliate companies; and (v) enterprises that supply modem chipsets to companies referred to in (i), (ii) or (iii) above and the affiliate companies of such enterprises. The KFTC's decision also imposed a fine of approximately 1.03 trillion Korean Won (approximately $927 million), which was paid on March 30, 2017. The Company believes that its business practices do not violate the MRFTA, and on February 21, 2017 filed an action in the Seoul High Court to cancel the KFTC's decision. On the same day, the Company filed an application with the Seoul High Court to stay the decision's remedial order pending the Seoul High Court's final judgment on the Company's action to cancel the KFTC's decision. On September 4, 2017, the Seoul High Court denied the Company's application to stay the remedial order, and on November 27, 2017, the Korea Supreme Court dismissed the Company's appeal of the Seoul High Court's decision on the application to stay. The Seoul High Court has not ruled on the Company's action to cancel the KFTC's decision.

Icera Complaint to the European Commission (EC): On June 7, 2010, the EC notified and provided the Company with a redacted copy of a complaint filed with the EC by Icera, Inc. (subsequently acquired by Nvidia Corporation) alleging that the Company has engaged in anticompetitive activity. The Company was asked by the EC to submit a preliminary response to the portions of the complaint disclosed to it, and the Company submitted its response in July 2010. Subsequently, the Company provided additional documents and information as requested by the EC. On July 16, 2015, the EC announced that it had initiated formal proceedings in this matter. On December 8, 2015, the EC announced that it had issued a Statement of Objections expressing its preliminary view that between 2009 and 2011, the Company engaged in predatory pricing by selling certain baseband chipsets to two customers at prices below cost, with the intention of hindering competition. A Statement of Objections informs the subject of the investigation of the allegations against it and provides an opportunity to respond to such allegations. It is not a determination of the final outcome of the investigation. On August 15, 2016, the Company submitted its response to the Statement of Objections. On July 19, 2018, the EC announced that it had issued a Supplementary Statement of Objections which focuses on certain elements of the "price-cost" test applied by the EC to assess the extent to which the Company sold certain baseband chipsets allegedly below cost. If a violation is found, a broad range of remedies is potentially available to the EC, including imposing a fine (of up to 10% of the Company's revenues) and/or injunctive relief prohibiting or restricting certain business practices. It is difficult to predict the outcome of this matter or what remedies, if any, may be imposed by the EC. The Company believes that its business practices do not violate the European Union (EU) competition rules.

European Commission (EC) Investigation: On October 15, 2014, the EC notified the Company that it was conducting an investigation of the Company relating to Articles 101 and/or 102 of the Treaty on the Functioning of the European Union (TFEU). On July 16, 2015, the EC announced that it had initiated formal proceedings in this matter. On December 8, 2015, the EC announced that it had issued a Statement of Objections expressing its preliminary view that, pursuant to an agreement with a customer, since 2011 the Company paid significant amounts to that customer on condition that it exclusively use the Company's baseband chipsets in its smartphones and tablets. This conduct allegedly reduced the customer's incentives to source chipsets from the Company's competitors and harmed competition and innovation for certain baseband chipsets. On January 24, 2018, the EC issued a decision finding that certain terms of that agreement violate EU competition law and imposed a fine of approximately 997 million Euros. On April 6, 2018, the Company filed an appeal of the EC's decision with the General Court of the European Union. The court has not ruled on the Company's appeal. The Company believes that its business practices do not violate the EU competition rules.

QUALCOMM
Incorporated
NOTES TO
CONDENSED
CONSOLIDATED
FINANCIAL
STATEMENTS
(Unaudited)

The Company recorded a charge of $1.18 billion to other expenses related to the EC fine in the first quarter of fiscal 2018. The Company provided financial guarantees in the third quarter of fiscal 2018 to satisfy the obligation in lieu of cash payment while the Company appeals the EC's decision. The fine is accruing interest at a rate of 1.50% per annum until it is paid or annulled. At June 24, 2018, the liability, including related foreign currency gains and accrued interest (which were recorded in investment and other income, net), was $1.17 billion and included in other current liabilities.
United States Federal Trade Commission (FTC) v. QUALCOMM Incorporated: On September 17, 2014, the FTC notified the Company that it is conducting an investigation of the Company relating to Section 5 of the Federal Trade Commission Act (FTCA). On January 17, 2017, the FTC filed a complaint against the Company in the United States District Court for the Northern District of California alleging that the Company engaged in anticompetitive conduct and unfair methods of competition in violation of Section 5 of the FTCA by conditioning the supply of baseband processors on the purchaser first agreeing to a license to the Company's standard-essential patents, paying incentives to purchasers of baseband processors to induce them to accept certain license terms, refusing to license its standard-essential patents to the Company's competitors and entering into alleged exclusive dealing arrangements with Apple Inc. The complaint seeks a permanent injunction against the Company's alleged violations of the FTCA and other unspecified ancillary equitable relief. A fine is not an available remedy in this matter, and the Company does not believe that other monetary remedies are likely. On April 19, 2017, the court set a trial date for January 4, 2019. The Company believes the FTC's claims are without merit.
Taiwan Fair Trade Commission (TFTC) Investigation: On December 4, 2015, the TFTC notified the Company that it was conducting an investigation into whether the Company's patent licensing practices violate the Taiwan Fair Trade Act (TFTA). On October 11, 2017, the TFTC announced that it had reached a decision in the investigation, finding that the Company violated the TFTA. On October 23, 2017, the Company received TFTC's formal written decision, which found that the following conducts violate the TFTA: (i) refusing to license and demanding restrictive covenants from chip competitors; (ii) refusing to supply baseband processors to companies that do not have an executed license; and (iii) providing a royalty discount to Apple in exchange for its exclusive use of the Company's chipsets. The TFTC's decision was based on a four-three vote, and included three written dissents. The TFTC's decision orders the Company to: (1) cease the following conduct within 60 days of the day after receipt of the decision: (a) applying the clauses in an agreement entered into with a competing chip supplier requesting it to provide sensitive sales information such as chip prices, customers, sales volumes, product types and serial numbers; (b) applying clauses in component supply agreements entered into with handset manufacturers relating to the refusal to sell chips to unlicensed manufacturers; and (c) applying discount clauses in the exclusive agreement entered into with a relevant enterprise; (2) notify competing chip companies and handset manufacturers in writing within 30 days after receipt of the decision that those companies may request to amend or enter into patent license agreements and other relevant agreements within 60 days of the day following the day such notices are received, and upon receipt of such requests, the Company shall commence negotiation in good faith; (3) submit status reports to the TFTC on any such negotiations every six months beginning from the day after receipt of the decision, as well as to submit a report to the TFTC within 30 days after amendments to any license agreements or newly signed license agreements are executed. The TFTC's decision also imposed a fine of 23.4 billion Taiwan Dollars. The Company believes that its business practices do not violate the TFTA, and on November 10, 2017, the Company filed an Application for Stay of Enforcement (Stay Application) of the TFTC's decision in the Taiwan Intellectual Property Court (IPC). On December 22, 2017, the Company filed an Administrative Litigation Complaint in the IPC to revoke the TFTC's decision. On May 24, 2018, the Company withdrew its Stay Application. The IPC has not yet ruled on the Company's Administrative Litigation Complaint to

revoke the TFTC's decision.
The Company recorded a charge of $778 million to other expenses related to the TFTC fine in the fourth quarter of fiscal 2017. The fine will be paid in monthly installments through December 2022. At June 24, 2018, the remaining liability, including related foreign currency gains (which were recorded in investment and other income, net), was approximately $708 million, of which $554 million was included in other noncurrent liabilities.
Contingent losses: The Company will continue to vigorously defend itself in the foregoing matters. However, litigation and investigations are inherently uncertain, and the Company faces difficulties in evaluating or estimating likely outcomes or ranges of possible loss in antitrust and trade regulation investigations in particular. Investigations by antitrust and trade regulation agencies are not conducted in a consistent manner across jurisdictions. Further, each country and agency has different sets of laws, rules and regulations, both substantive and procedural, as well as different legal principles, theories and potential remedies, and some agencies may seek to use the investigation to advance domestic policy goals. Depending on the jurisdiction, these investigations can involve non-transparent procedures under which the Company may not receive access to evidence relied upon by the enforcement agency or that may be exculpatory, and may not be informed of the specific legal theories or evidence considered or relied upon by the agency. Unlike in civil litigation in the United States, in foreign proceedings, the Company may not be entitled to discovery or depositions, allowed to cross-examine witnesses or confront

QUALCOMM
Incorporated
NOTES TO
CONDENSED
CONSOLIDATED
FINANCIAL
STATEMENTS
(Unaudited)

its accusers. As a result, the Company may not be aware of, and may not be entitled to know, all allegations against it, or the information or documents provided to, or discovered or prepared by, the agency. Accordingly, the Company may have little or no idea what an agency's intent is with respect to liability, penalties or the timing of a decision. In many cases the agencies are given significant discretion, and any available precedent may have limited, if any, predictive value in their jurisdictions, much less in other jurisdictions. Accordingly, the Company cannot predict the outcome of these matters.

Other than with respect to the TFTC and EC fines, the Company has not recorded any accrual at June 24, 2018 for contingent losses associated with these matters based on its belief that losses, while possible, are not probable. Further, any possible range of loss cannot be reasonably estimated at this time. The unfavorable resolution of one or more of these matters could have a material adverse effect on the Company's business, results of operations, financial condition or cash flows. The Company is engaged in numerous other legal actions not described above arising in the ordinary course of its business and, while there can be no assurance, believes that the ultimate outcome of these other legal actions will not have a material adverse effect on its business, results of operations, financial condition or cash flows.

Indemnifications. The Company generally does not indemnify its customers and licensees for losses sustained from infringement of third-party intellectual property rights. However, the Company is contingently liable under certain product sales, services, license and other agreements to indemnify certain customers, chipset foundries and semiconductor assembly and test service providers against certain types of liability and/or damages arising from qualifying claims of patent, copyright, trademark or trade secret infringement by products or services sold or provided by the Company, or by intellectual property provided by the Company to chipset foundries and semiconductor assembly and test service providers. The Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments made by the Company.

Through June 24, 2018, the Company has received a number of claims from its direct and indirect customers and other third parties for indemnification under such agreements with respect to alleged infringement of third-party intellectual property rights by its products. Reimbursements under indemnification arrangements have not been material to the Company's consolidated financial statements. The Company has not recorded any accrual for contingent liabilities at June 24, 2018 associated with these indemnification arrangements based on the Company's belief that additional liabilities, while possible, are not probable. Further, any possible range of loss cannot be reasonably estimated at this time.

Purchase Obligations and Operating Leases. The Company has agreements with suppliers and other parties to purchase inventory, other goods and services and long-lived assets. Integrated circuit product inventory obligations represent purchase commitments for raw materials, semiconductor die, finished goods and manufacturing services, such as wafer bump, probe, assembly and final test. Under the Company's manufacturing relationships with its foundry suppliers and assembly and test service providers, cancelation of outstanding purchase commitments is generally allowed but requires payment of costs incurred through the date of cancelation, and in some cases, incremental fees related to capacity underutilization.

The Company leases certain of its land, facilities and equipment under noncancelable operating leases, with terms ranging from less than one year to 21 years and with provisions in certain leases for cost-of-living increases. Obligations under these purchase agreements and future minimum lease payments under these operating leases at June 24, 2018 were as follows (in millions):

	Integrated Circuit Purchase Obligations	Other Purchase Obligations	Operating Leases
Remainder of fiscal 2018	$ 2,153	$ 665	$ 30
2019	1,357	391	114
2020	316	179	84
2021	60	67	63
2022	23	13	42
Thereafter	—	5	53
Total	$ 3,909	$ 1,320	$ 386

Other Commitments. At June 24, 2018, the Company was committed to fund certain strategic investments up to $544 million, of which $218 million, $37 million and $74 million was expected to be funded in the remainder of fiscal 2018, fiscal

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2019 and fiscal 2021, respectively. The remaining commitments do not have fixed funding dates and are subject to certain conditions. Commitments represent the maximum amounts to be funded under these arrangements; actual funding may be in lesser amounts or not at all.

In March 2018, the Company's RF360 Holdings joint venture entered into an agreement for a build-to-suit construction project with a third-party lessor for the development of a manufacturing facility located in Singapore. The agreement includes a long-term lease commitment with a noncancelable 10-year term commencing upon completion of the construction project. At June 24, 2018, the minimum lease commitment under the agreement based on the noncancelable term was approximately $87 million.

Note 7. Segment Information

The Company is organized on the basis of products and services and has three reportable segments. The Company conducts business primarily through its QCT (Qualcomm CDMA Technologies) semiconductor business and its QTL (Qualcomm Technology Licensing) licensing business. QCT develops and supplies integrated circuits and system software based on CDMA, OFDMA and other technologies for use in mobile devices, wireless networks, devices used in the Internet of Things (IoT), broadband gateway equipment, consumer electronic devices and automotive telematics and infotainment systems. QTL grants licenses to use portions of its intellectual property portfolio, which includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products. The Company's QSI (Qualcomm Strategic Initiatives) reportable segment makes strategic investments and includes revenues and related costs associated with development contracts with an equity method investee. The Company also has nonreportable segments, including its mobile health, data center, small cell and other wireless technology and service initiatives.

The Company evaluates the performance of its segments based on earnings (loss) before income taxes (EBT). In fiscal 2018, all of the costs related to pre-commercial research and development of 5G (fifth generation) technology, of which $124 million and $340 million was recorded in the three and nine months ended June 24, 2018, respectively, were included in unallocated corporate research and development expenses, whereas similar costs related to the research and development of other technology, including 3G (third generation) and 4G (fourth generation) technology, were recorded in the QCT and QTL segments.

The table below presents revenues, EBT and total assets for reportable segments (in millions):

	Three Months Ended		Nine Months Ended	
	June 24, 2018	June 25, 2017	June 24, 2018	June 25, 2017
Revenues				
QCT	$4,087	$4,052	$12,635	$11,829
QTL	1,465	1,172	4,025	5,232
QSI	20	56	80	70
Reconciling items	27	91	188	(744)
Total	$5,599	$5,371	$16,928	$16,387
EBT				
QCT	$607	$575	$2,170	$1,774
QTL	1,049	854	2,786	4,346
QSI	(7)	55	44	38

Reconciling items	(693)	(626)	(3,712)	(3,572)
Total	$956	$858	$1,288	$2,586

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	June 24, 2018	September 24, 2017
Assets		
QCT	$3,063	$ 3,830
QTL	1,801	1,735
QSI	1,153	1,037
Reconciling items	56,073	58,884
Total	$62,090	$ 65,486

Reconciling items for revenues and EBT in the previous table were as follows (in millions):

	Three Months Ended		Nine Months Ended	
	June 24, 2018	June 25, 2017	June 24, 2018	June 25, 2017
Revenues				
Nonreportable segments	$77	$79	$238	$218
Reduction to revenues related to BlackBerry arbitration decision	—	12	—	(962)
Other unallocated revenues	(50)	—	(50)	—
	$27	$91	$188	$(744)
EBT				
Reduction to revenues related to BlackBerry arbitration decision	$—	$12	$—	$(962)
Other unallocated revenues	(50)	—	(50)	—
Unallocated cost of revenues	(135)	(188)	(362)	(402)
Unallocated research and development expenses	(293)	(257)	(844)	(803)
Unallocated selling, general and administrative expenses	(60)	(197)	(480)	(481)
Unallocated other expenses (Note 2)	(112)	(9)	(1,605)	(962)
Unallocated interest expense	(208)	(130)	(556)	(325)
Unallocated investment and other income, net	255	239	461	646
Nonreportable segments	(90)	(96)	(276)	(283)
	$(693)	$(626)	$(3,712)	$(3,572)

Other unallocated revenues in the three and nine months ended June 24, 2018 were comprised of a reduction to licensing revenues related to a portion of a business arrangement that resolved a legal dispute and were not allocated to a reportable segment in the Company’s management reports because it will not be considered in evaluating segment results.

Unallocated acquisition-related expenses were comprised as follows (in millions):

	Three Months Ended		Nine Months Ended	
	June 24, 2018	June 25, 2017	June 24, 2018	June 25, 2017
Cost of revenues	$127	$ 139	$335	$ 330
Research and development expenses	2	3	5	18
Selling, general and administrative expenses	20	77	310	195

Note 8. Acquisitions

On October 27, 2016, the Company announced a definitive agreement (as amended on February 20, 2018 and April 19, 2018, the Purchase Agreement) under which Qualcomm River Holdings, B.V. (Qualcomm River Holdings), an indirect, wholly owned subsidiary of QUALCOMM Incorporated, proposed to acquire NXP Semiconductors N.V. (NXP). Pursuant to the Purchase Agreement, Qualcomm River Holdings is conducting a tender offer to acquire all of the issued and outstanding common shares of NXP, which will expire at 5:00 p.m. New York time on July 25, 2018, unless extended or earlier terminated, in either case pursuant to the terms of the Purchase Agreement.

QUALCOMM
Incorporated
NOTES TO
CONDENSED
CONSOLIDATED
FINANCIAL
STATEMENTS
(Unaudited)

The transaction remains subject to receipt of regulatory clearance from SAMR and other closing conditions, including the tender of at least 70% of the issued and outstanding common shares of NXP in the tender offer. In the absence of such approval or other material developments, the Company expects to terminate the transaction after 11:59 p.m. New York time on July 25, 2018, which is the "End Date" for the transaction under the Purchase Agreement. In accordance with the terms of the Purchase Agreement, in the absence of approval from SAMR prior to the End Date, NXP will be entitled to receive a termination fee of $2.0 billion from Qualcomm River Holdings, which will be paid using existing cash and cash equivalents.

If events occur that cause the Company to not terminate the transaction, the Company will continue to pursue the acquisition of all of the issued and outstanding common shares of NXP for $127.50 per share in cash, representing estimated total cash consideration to be paid to NXP's shareholders of $44 billion, in accordance with the Purchase Agreement. In such case, the Company could be required to pay NXP a termination fee of $2.0 billion if the transaction is subsequently terminated in certain circumstances, as set forth in the Purchase Agreement.

Qualcomm River Holdings entered into four letters of credit for an aggregate amount of $2.0 billion related to the potential termination fee payable to NXP. Pursuant to the terms of each letter of credit, NXP will have the right to draw amounts to fund certain termination compensation owed by Qualcomm River Holdings to NXP if the Purchase Agreement is terminated under certain circumstances, as described above. The letters of credit expire on December 31, 2018 or if drawn on or surrendered by NXP or surrendered by Qualcomm River Holdings. Upon the Company's payment of the termination fee, NXP will no longer have the right to validly draw on the letters of credit. Each letter of credit is required to be fully cash collateralized in an amount equal to 100% of its face value through deposits with the issuers of the letters of credit. Qualcomm River Holdings is restricted from using the funds deposited as collateral while the letters of credit are outstanding. At June 24, 2018, the letters of credit were fully collateralized through bank time and demand deposits, which were included in other noncurrent assets.

Note 9. Cost Plan

In the second quarter of fiscal 2018, the Company announced a Cost Plan designed to align the Company's cost structure to its long-term margin targets. As part of this plan, the Company has initiated a series of targeted actions across the Company's businesses to reduce annual costs by $1 billion, excluding incremental costs resulting from any future acquisition of a business. The Company expects these cost reductions to be fully captured in fiscal 2019.

During the nine months ended June 24, 2018, the Company recorded restructuring and restructuring-related charges of $422 million in other expenses (Note 2), which consisted of restructuring charges of $302 million, primarily related to severance costs, and restructuring-related charges of $120 million, primarily related to certain asset impairments. In connection with this plan, the Company expects to incur additional restructuring and restructuring-related charges of approximately $50 million to $150 million, which primarily consist of severance and consulting costs, and the vast majority of which are expected to be settled in cash.

The restructuring accrual, a portion of which was included in payroll and other benefits related liabilities with the remainder included in other current liabilities, is expected to be substantially paid within the next 12 months. Changes in the restructuring accrual for fiscal 2018 were as follows (in millions):

	Severance Costs	Other Costs	Total
Beginning balance of restructuring accrual	$ —	$ —	$ —
Costs	283	17	300
Cash payments	(48)	(2)	(50)

Adjustments	3	(1)	2
Ending balance of restructuring accrual	$ 238	$ 14	$ 252

29

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 10. Fair Value Measurements

The following table presents the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at June 24, 2018 (in millions):

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$23,855	$10,602	$—	$34,457
Marketable securities:				
Corporate bonds and notes	—	213	—	213
Mortgage- and asset-backed and auction rate securities	—	—	35	35
Equity and preferred securities and equity funds	34	—	—	34
Total marketable securities	34	213	35	282
Derivative instruments	—	2	—	2
Other investments	393	—	20	413
Total assets measured at fair value	$24,282	$10,817	$55	$35,154
Liabilities				
Derivative instruments	$—	$80	$—	$80
Other liabilities	393	—	129	522
Total liabilities measured at fair value	$393	$80	$129	$602

Activity between Levels of the Fair Value Hierarchy. There were no transfers between Level 1 and Level 2 in the nine months ended June 24, 2018 and June 25, 2017. There were no transfers of marketable securities into or out of Level 3 during the nine months ended June 24, 2018 and June 25, 2017. Other investments and other liabilities included in Level 3 at June 24, 2018 were comprised of convertible debt instruments issued by private companies and contingent consideration related to business combinations, respectively. There were no transfers of convertible debt instruments or contingent consideration amounts into or out of Level 3 during the nine months ended June 24, 2018 and June 25, 2017.

Note 11. Marketable Securities

Marketable securities were comprised as follows (in millions):

	Current		Noncurrent	
	June 24, 2018	September 24, 2017	June 24, 2018	September 24, 2017
Available-for-sale:				
U.S. Treasury securities and government-related securities	$—	$ 23	$—	$ 959
Corporate bonds and notes	213	2,014	—	271
Mortgage- and asset-backed and auction rate securities	—	93	35	40
Equity and preferred securities and equity funds	34	36	—	—
Debt funds	—	109	—	—
Total available-for-sale	247	2,275	35	1,270
Time deposits	44	4	—	—
Total marketable securities	$291	$ 2,279	$35	$ 1,270

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The contractual maturities of available-for-sale debt securities were as follows (in millions):

	June 24, 2018
Years to Maturity	
Less than one year	$ 194
One to five years	19
Five to ten years	—
Greater than ten years	—
No single maturity date	35
Total	$ 248

Debt securities with no single maturity date included mortgage- and asset-backed securities and auction rate securities.
The Company recorded realized gains and losses on sales of available-for-sale securities as follows (in millions):

	For the three months ended		For the nine months ended	
	June 24, 2018	June 25, 2017	June 24, 2018	June 25, 2017
Gross realized gains	$ 3	$ 119	$ 16	$ 422
Gross realized losses	(6)	(8)	(6)	(116)
Net realized gains	$ (3)	$ 111	$ 10	$ 306

Available-for-sale securities were comprised as follows (in millions):

	June 24, 2018	September 24, 2017
Equity securities		
Cost	$ 8	$ 8
Unrealized gains	26	28
Fair value	34	36
Debt securities (including debt funds)		
Cost	247	3,497
Unrealized gains	1	13
Unrealized losses	—	(1)
Fair value	248	3,509
	$ 282	$ 3,545

In connection with the proposed NXP transaction (Note 8), the Company divested a substantial portion of its marketable securities portfolio in order to finance, in part, that transaction. Marketable securities that were expected to be used to finance the NXP transaction were fully liquidated and classified as cash and cash equivalents at June 24, 2018. Given the Company’s intention to sell certain marketable securities, the Company recorded other-than-temporary impairment losses in fiscal 2017 for certain marketable securities, and no additional losses were recorded in the nine months ended June 24, 2018.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This information should be read in conjunction with the condensed consolidated financial statements and the notes thereto included in "Part I, Item 1" of this Quarterly Report and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the year ended September 24, 2017 contained in our 2017 Annual Report on Form 10-K.

This Quarterly Report (including, but not limited to, this section regarding Management's Discussion and Analysis of Financial Condition and Results of Operations) contains forward-looking statements regarding our business, investments, financial condition, results of operations and prospects. Additionally, statements concerning future matters, such as the development of new products, enhancements of technologies, industry and market trends, sales levels, expense levels and other statements regarding matters that are not historical, are forward-looking statements. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variatio such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this Quarterly Report.

Although forward-looking statements in this Quarterly Report reflect our good faith judgment, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed under the heading "Risk Factors" below, as well as those discussed elsewhere in this Quarterly Report. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report. Readers are urged to carefully review and consider the various disclosures made in this Quarterly Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Third Quarter of Fiscal 2018 Overview

Revenues for the third quarter of fiscal 2018 were $5.6 billion, an increase of 4% compared to the year ago quarter, with net income attributable to Qualcomm of $1.2 billion, an increase of 41% compared to the year ago quarter.

Highlights and other events from the third quarter of fiscal 2018 included:

- The transition of wireless networks and devices to 3G/4G (CDMA single-mode, OFDMA single-mode and CDMA/OFDMA multi-mode) continued around the world. 3G/4G connections grew sequentially by approximately 3% to approximately 5.1 billion, which was approximately 65% of total mobile connections at the end of the third quarter of fiscal 2018.(1)
- We continue to invest significant resources toward advancements primarily in support of 4G- and 5G-based technologies as well as other technologies to extend the demand for our products and generate new or expanded licensing opportunities, including within adjacent industry segments outside traditional cellular industries, such as automotive, the Internet of Things (IoT) and networking.
- QCT results in the third quarter of fiscal 2018 were positively impacted by higher demand from OEMs in China, partially offset by lower modem sales to Apple.
- QTL results were negatively impacted by our continued dispute with Apple and its contract manufacturers (who are Qualcomm licensees), and we did not record any revenues in the third quarter of fiscal 2018 for royalties due on sales of Apple's products. QTL revenues in the third quarter of fiscal 2018 included $500 million paid under an interim agreement with the other licensee in dispute (which dispute was previously disclosed). This represents a partial payment for royalties due after the second quarter of fiscal 2017 by that other licensee while negotiations continue. This payment does not reflect the full amount of royalties due under the underlying license agreement.
- In the second quarter of fiscal 2018, we announced a Cost Plan designed to align our cost structure to our long-term margin targets, under which we continue to execute on a series of targeted actions across our businesses to reduce annual costs by $1 billion, excluding incremental costs resulting from any future acquisition of a business. We expect these cost reductions to be fully captured in fiscal 2019. We recorded restructuring and restructuring-related charges of $112 million in the third quarter of fiscal 2018 related to our Cost Plan.

(1) According to GSMA Intelligence estimates as of July 23, 2018 (estimates excluded Wireless Local Loop).

Our Business and Operating Segments

We develop and commercialize foundational technologies and products used in mobile devices and other wireless products, including network equipment, broadband gateway equipment and consumer electronics devices. We derive revenues principally from sales of integrated circuit products and licensing our intellectual property, including patents, software and other rights.

We are organized on the basis of products and services and have three reportable segments. We conduct business primarily through our QCT (Qualcomm CDMA Technologies) semiconductor business and our QTL (Qualcomm Technology Licensing) licensing business. QCT develops and supplies integrated circuits and system software based on CDMA, OFDMA and other technologies for use in mobile devices, wireless networks, devices used in IoT, broadband gateway equipment, consumer electronic devices and automotive telematics and infotainment systems. QTL grants licenses to use portions of its intellectual property portfolio, which includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products. Our QSI (Qualcomm Strategic Initiatives) reportable segment makes strategic investments. We also have nonreportable segments, including our mobile health, data center, small cell and other wireless technology and service initiatives.

Our reportable segments are operated by QUALCOMM Incorporated and its direct and indirect subsidiaries. Substantially all of our products and services businesses, including QCT, and substantially all of our engineering, research and development functions, are operated by Qualcomm Technologies, Inc. (QTI), a wholly-owned subsidiary of QUALCOMM Incorporated, and QTI's subsidiaries. QTL is operated by QUALCOMM Incorporated, which owns the vast majority of our patent portfolio. Neither QTI nor any of its subsidiaries has any right, power or authority to grant any licenses or other rights under or to any patents owned by QUALCOMM Incorporated.

Seasonality. Many of our products and/or intellectual property are incorporated into consumer wireless devices, which are subject to seasonality and other fluctuations in demand. As a result, QCT has tended historically to have stronger sales toward the end of the calendar year as manufacturers prepare for major holiday selling seasons; and because QTL recognizes royalty revenues when royalties are reported by licensees, QTL has tended to record higher royalty revenues in the first calendar quarter when licensees report their sales made in the fourth calendar quarter. We have also experienced fluctuations in revenues due to the timing of conversions and expansions of 3G and 4G networks by wireless operators, the timing of launches of flagship wireless devices and consumer demand for wireless devices that incorporate our products and/or intellectual property. These trends may or may not continue in the future. The seasonal trends for QTL may be impacted by disputes and/or resolutions with licensees. Seasonal trends for QTL will be impacted by the adoption of the new guidance related to revenue recognition in the first quarter of fiscal 2019 pursuant to which we will be required to estimate and recognize sales-based royalties in the period in which the associated sales occur, resulting in an acceleration of revenue recognition compared to the current method.

Results of Operations

Revenues (in millions)

	Three Months Ended			Nine Months Ended		
	June 24, 2018	June 25, 2017	Change	June 24, 2018	June 25, 2017	Change
Equipment and services	$4,110	$ 4,121	$ (11)	$12,750	$11,949	$ 801
Licensing	1,489	1,250	239	4,178	4,438	(260)
	$5,599	$ 5,371	$ 228	$16,928	$16,387	$ 541

The decrease in equipment and services revenues in the third quarter of fiscal 2018 was primarily due to a decrease in QSI revenues, partially offset by an increase in QCT revenues. The increase in equipment and services revenues in the first nine months of fiscal 2018 was primarily due to an increase in QCT revenues. The increase in licensing revenues in the third quarter of fiscal 2018 was primarily due to an increase in QTL revenues. The decrease in licensing revenues in the first nine months of fiscal 2018 was primarily due to a decrease in QTL revenues, partially offset by the reduction to revenues of $962 million recorded in the first nine months of fiscal 2017 related to the BlackBerry arbitration decision.

Costs and Expenses (in millions)

	Three Months Ended			Nine Months Ended		
	June 24, 2018	June 25, 2017	Change	June 24, 2018	June 25, 2017	Change
Cost of revenues	$2,491	$2,488	$ 3	$7,394	$7,140	$ 254
Gross margin	56 %	54 %		56 %	56 %	

The increase in gross margin in the third quarter of fiscal 2018 was primarily due to an increase in higher margin QTL licensing revenues as a proportion of total revenues, partially offset by a $50 million reduction to licensing revenues related to a portion of a business arrangement that resolves a legal dispute. The margin percentage in the first nine months of fiscal 2018 remained flat primarily due to the effects of a decrease in higher margin QTL licensing revenues as a proportion of total revenues, offset by an increase in QCT margin and a reduction to licensing revenues of $962 million recorded in the first nine months of fiscal 2017 related to the BlackBerry arbitration decision. Our margin percentage may continue to fluctuate in future periods depending on the mix of segment results as well as products sold, competitive pricing, new product introduction costs and other factors, including disputes and/or resolutions with licensees. In addition, our margin percentage may be impacted by the adoption of the new revenue recognition guidance in the first quarter of fiscal 2019 pursuant to which we will be required to estimate and recognize sales-based royalty revenues in the period in which the associated sales occur. As a result, adjustments to revenues will be required in subsequent periods based on the actual amounts reported by our licensees.

	Three Months Ended			Nine Months Ended		
	June 24, 2018	June 25, 2017	Change	June 24, 2018	June 25, 2017	Change
Research and development	$1,416	$1,391	$ 25	$4,237	$4,087	$ 150
% of revenues	25 %	26 %		25 %	25 %	
Selling, general and administrative	$655	$710	$ (55)	$2,297	$1,917	$ 380
% of revenues	12 %	13 %		14 %	12 %	
Other	$112	$9	$ 103	$1,605	$962	$ 643

The dollar increases in research and development expenses in the third quarter and first nine months fiscal 2018 were primarily attributable to increases, which are net of cost decreases driven by actions taken under our Cost Plan, of $31 million and $192 million, respectively, in costs related to the development of integrated circuit technologies, including 5G technology and RFFE technologies from our RF360 Holdings joint venture, which was formed in the second quarter of fiscal 2017. The dollar increase in the first nine months of fiscal 2018 was partially offset by a $30 million impairment charge on certain intangible assets recorded in the first quarter of fiscal 2017.

Selling, general and administrative expenses included $162 million and $413 million in the third quarter and first nine months of fiscal 2018, respectively, related to litigation costs, an increase of $102 million and $275 million, respectively. Excluding the increase in litigation costs, selling, general and administrative expenses decreased by $157 million in the third quarter of fiscal 2018 primarily due to decreases of $60 million in other professional fees and costs related to other legal matters, principally related to third-party acquisition and integration services, $31 million in other expenses and $30 million in employee-related expenses driven by actions taken under our Cost Plan, $30 million in share-based compensation expense, primarily due to an increase in forfeitures, and $16 million in amortization of intangible assets. Excluding the increase in litigation costs, selling, general and administrative expenses increased by $105 million in the first nine months of fiscal 2018 primarily due to increases of $118 million in professional fees and costs related to other legal matters, which was primarily driven by Broadcom’s withdrawn takeover proposal and $45 million in bad debt expense, partially offset by decreases of $45 million in share-based compensation expense, primarily due to an increase in forfeitures and actions take under our Cost Plan, and $16 million in amortization of intangible assets.

Other expenses in the third quarter and first nine months of fiscal 2018 included $112 million and $422 million, respectively, in restructuring and restructuring-related charges related to our Cost Plan. Other expenses in the first nine months of fiscal 2018 also included a $1.2 billion charge related to the European Commission (EC) fine. Other expenses in the first nine months of fiscal 2017 consisted of a $927 million charge related to the Korea Fair Trade Commission (KFTC) fine, including related foreign currency losses, and $35 million in restructuring and restructuring-related charges related to our Strategic Realignment Plan.

Interest Expense and Investment and Other Income, Net (in millions)

	Three Months Ended			Nine Months Ended		
	June 24, 2018	June 25, 2017	Change	June 24, 2018	June 25, 2017	Change
Interest expense	$212	$ 133	$ 79	$561	$ 330	$231
Investment and other income, net						
Interest and dividend income	$182	$ 147	$ 35	$461	$ 466	$(5)
Net realized gains on marketable securities	10	124	(114)	24	330	(306)
Net realized gains on other investments	16	15	1	77	45	32
Impairment losses on marketable securities and other investments	(19)	(15)	(4)	(40)	(163)	123
Equity in net losses of investees	(28)	(31)	3	(67)	(42)	(25)
Net gains (losses) on foreign currency transactions	112	(26)	138	20	(26)	46
Net (losses) gains on derivative instruments	(30)	4	(34)	(21)	25	(46)
	$243	$ 218	$ 25	$454	$ 635	$(181)

The increases in interest expense in the third quarter and first nine months of fiscal 2018 were primarily attributable to the issuance of an aggregate principal amount of $11.0 billion of unsecured floating- and fixed-rate notes in May 2017. In the first quarter of fiscal 2017, we began divesting a substantial portion of our marketable securities portfolio in order to finance, in part, the proposed acquisition of NXP. As a result, we recorded net realized gains and impairment losses on such marketable securities that we sold and expected to sell before their anticipated recovery, respectively, in fiscal 2017. The net gains on foreign currency transactions in the third quarter and first nine months of fiscal 2018 were primarily attributable to currency exchange rate movements on amounts accrued for the EC and Taiwan Fair Trade Commission (TFTC) fines, as well as the impact of currency exchange rate movements on certain monetary assets and liabilities of our RF360 Holdings joint venture.

Income Tax (Benefit) Expense (in millions)

	Three Months Ended			Nine Months Ended		
	June 24, 2018	June 25, 2017	Change	June 24, 2018	June 25, 2017	Change
Income tax (benefit) expense	$(263)	$ (7)	$(256)	$5,659	$290	$5,369
Effective tax rate	(28 %)	(1 %)	(27 %)	N/M	11 %	N/M

N/M - Not meaningful

The following table summarizes the primary factors that caused our effective tax rates for the third quarters of fiscal 2018 and 2017 to be less than the United States federal statutory rate:

	Three Months Ended	
	June 24, 2018	June 25, 2017
Expected income tax provision at federal statutory tax rate	25 %	35 %
Benefits from foreign income taxed at other than U.S. rates	(40%)	(41 %)
Benefits related to the research and development tax credit	(4 %)	(3 %)
Toll Charge measurement period adjustments	1 %	—
Remeasurement of deferred taxes due to changes in statutory tax rate	(12%)	—
Nondeductible charges related to the KFTC and EC investigations	1 %	5 %
Other	1 %	3 %
Effective Tax Rate	(28%)	(1 %)

The Tax Cuts and Jobs Act (the Tax Legislation) in the United States (U.S.) enacted on December 22, 2017 significantly revises the U.S. corporate income tax by, among other things, lowering the corporate income tax rate to 21% effective

January 1, 2018, implementing a modified territorial tax system and imposing a one-time repatriation tax on deemed repatriated earnings and profits of U.S.-owned foreign subsidiaries (the Toll Charge). As a fiscal-year taxpayer, certain provisions of the Tax Legislation impacted us in fiscal 2018, including the change in the corporate income tax rate and the Toll Charge, while other provisions will be effective starting at the beginning of fiscal 2019, including the implementation of a modified territorial tax system. Accordingly, our federal statutory income tax rate for fiscal 2018 reflects a blended rate of approximately 25%.

We have preliminarily accounted for the effects of the Tax Legislation, which resulted in a charge of $5.73 billion to income tax expense recorded discretely in the first nine months of fiscal 2018, comprised of $5.3 billion related to the estimated Toll Charge and $412 million resulting from the estimated impact of remeasurement of U.S. deferred tax assets and liabilities that existed at the end of fiscal 2017 at a lower enacted corporate income tax rate. These amounts included a $135 million tax benefit in the third quarter of fiscal 2018 related to the remeasurement of a U.S. deferred tax liability that was established as a result of a change in one of our positions due to Tax Legislation. In addition, we recorded $12 million net tax expense discretely in the third quarter of fiscal 2018 related to refining estimates associated with the estimated Toll Charge and the estimated impact of remeasurement of U.S. deferred tax assets and liabilities.

During the third quarter of fiscal 2018, we entered into a new tax incentive agreement in Singapore that results in a reduced tax rate from March 2017 through March 2022, provided that we meet specified employment and investment criteria in Singapore. Our Singapore tax rate will increase in March 2022 as a result of expiration of these incentives and again in March 2027 upon the expiration of tax incentives under a prior agreement. As a result of this new tax incentive, our estimated income tax expense for fiscal 2018 was reduced by approximately $126 million.

Our annual effective tax rate is estimated to be approximately 264% for fiscal 2018 as compared to the 18% effective income tax rate for fiscal 2017, primarily as a result of the estimated charge of $5.82 billion recorded to income tax expense in the first nine months of fiscal 2018 related to the combined effect of the Toll Charge, the remeasurement of deferred tax assets and liabilities and our decision to no longer indefinitely reinvest certain foreign earnings, all of which resulted from the Tax Legislation. Our estimated annual effective tax rate for fiscal 2018 was also impacted by the EC fine recorded in the first quarter of fiscal 2018, which is not deductible for tax purposes and is attributable to a foreign jurisdiction. Tax benefits from foreign income taxed at rates lower than rates in the U.S. are expected to be approximately 37% in fiscal 2018, compared to 32% in fiscal 2017, primarily due to lower estimated U.S. revenues principally related to decreased royalty revenues from Apple’s contract manufacturers, an increase in the allocation of expenses to our U.S. operations and the new tax incentive in Singapore, partially offset by the lower U.S. federal statutory income tax rate enacted by the Tax Legislation. The estimated annual effective tax rate for fiscal 2018 also reflects a blended U.S. federal statutory income tax rate of 25% as a result of the Tax Legislation. The annual effective tax rate of 18% for fiscal 2017 reflected the KFTC and TFTC fines, which were not deductible for tax purposes and were each attributable to both the U.S. and foreign jurisdictions.

The effective tax rate of 28% benefit for the third quarter of fiscal 2018 was lower than the estimated annual effective tax rate primarily due to the estimated charge of $5.95 billion recorded discretely to income tax expense in the first six months of fiscal 2018 related to the effects of certain components of the Tax Legislation and the EC fine recorded in the first quarter of fiscal 2018, as well as tax benefits recorded in the third quarter of fiscal 2018 resulting from an increase in the allocation of expenses to our U.S. operations and the new tax incentive in Singapore.

Unrecognized tax benefits were $356 million and $372 million at June 24, 2018 and September 24, 2017, respectively. We believe that it is reasonably possible that the total amounts of unrecognized tax benefits at June 24, 2018 may increase or decrease in the next 12 months.

We are subject to income taxes in the U.S. and numerous foreign jurisdictions, and we are currently under examination by various tax authorities worldwide, most notably in countries where we earn a routine return and tax authorities believe substantial value-add activities are performed. These examinations are at various stages with respect to assessments, claims, deficiencies and refunds, many of which are open for periods after fiscal 2000. We continually assess the likelihood and amount of potential adjustments and adjusts the income tax provision, income taxes payable and deferred taxes in the period in which the facts give rise to a revision become known. As of June 24, 2018, we believe that adequate amounts have been reserved for based on facts known. However, the final determination of tax audits and any related legal proceedings could materially differ from amounts reflected in our income tax provision and the related accruals.

Segment Results

The following should be read in conjunction with the financial results for the third quarter and first nine months of fiscal 2018 for each reportable segment included in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 7. Segment Information.”

(in millions)	Three Months Ended June 24, 2018	June 25, 2017	Change	Nine Months Ended June 24, 2018	June 25, 2017	Change
Revenues						
QCT	$4,087	$4,052	$35	$12,635	$11,829	$806
QTL	1,465	1,172	293	4,025	5,232	(1,207)
QSI	20	56	(36)	80	70	10
EBT (1)						
QCT	$607	$575	$32	$2,170	$1,774	$396
QTL	1,049	854	195	2,786	4,346	(1,560)
QSI	(7)	55	(62)	44	38	6
EBT as a % of revenues						
QCT	15 %	14 %	1 %	17 %	15 %	2 %
QTL	72 %	73 %	(1 %)	69 %	83 %	(14 %)

(1) Earnings (loss) before taxes.

QCT Segment. The increases in QCT revenues in the third quarter and first nine months of fiscal 2018 were primarily due to increases in equipment and services revenues. Equipment and services revenues, mostly related to sales of Mobile Station Modem (MSM) and accompanying Radio Frequency, Power Management and wireless connectivity integrated circuits, were $4.04 billion and $4.01 billion in the third quarter of fiscal 2018 and 2017, respectively, and $12.49 billion and $11.71 billion in the first nine months of fiscal 2018 and 2017, respectively. Approximately 199 million and 187 million MSM integrated circuits were sold in the third quarter of fiscal 2018 and 2017, respectively, and approximately 623 million and 584 million MSM integrated circuits were sold in the first nine months of fiscal 2018 and 2017, respectively.

The increases in QCT equipment and services revenues in the third quarter and first nine months of fiscal 2018 were primarily due to increases in RFFE product revenues of $75 million and $823 million, respectively, primarily driven by revenues from our RF360 Holdings joint venture, which was formed in the second quarter of fiscal 2017, and reflected the impact of eliminating a one-month reporting lag in the third quarter of fiscal 2018, and increases of $166 million and $559 million, respectively, primarily related to higher MSM and accompanying unit shipments driven primarily by higher demand from OEMs in China, partially offset by a decline in share at Apple. The increase in QCT revenues in the third quarter of fiscal 2018 was partially offset by decreases of $178 million resulting from lower average selling prices and unfavorable product mix and $31 million in connectivity product revenues. The increase in QCT revenues in the first nine months of fiscal 2018 was partially offset by decreases of $422 million resulting from the net impact of lower average selling prices and favorable product mix and $131 million in connectivity product revenues.

QCT EBT as a percentage of revenues in the third quarter of fiscal 2018 increased primarily due to net gains on foreign currency transactions related to our RF360 Holdings joint venture, partially offset by a decrease in gross margin percentage. The decrease in gross margin percentage was primarily due to unfavorable product mix and lower average selling prices, partially offset by lower average unit costs. QCT EBT as a percentage of revenues in first nine months of fiscal 2018 increased primarily due to an increase in gross margin percentage and the favorable impact of higher revenues relative to operating expenses. The increase in gross margin percentage was primarily due to lower average unit costs, partially offset by lower average selling prices.

QCT accounts receivable decreased by 29% in the first nine months of fiscal 2018 from $1.81 billion to $1.30 billion, primarily due to a decline in revenues in the third quarter of fiscal 2018 compared to the fourth quarter of fiscal 2017 and the timing of integrated circuit shipments. QCT inventories decreased by 12% in the first nine months of fiscal 2018 from $2.02 billion to $1.77 billion primarily due to a decrease in the overall quantity of units on hand.

QTL Segment. QTL results in the third quarter and first nine months of fiscal 2018 were negatively impacted by our continued dispute with Apple and its contract manufacturers (who are Qualcomm licensees). We did not record any revenues in the first nine months of fiscal 2018 for royalties due on sales of Apple's products. QTL revenues in the third quarter of fiscal 2018 included $500 million paid under an interim agreement with the other licensee in dispute. This represents a partial payment for royalties due after the second quarter of fiscal 2017 by that other licensee while negotiations continue, and it does not reflect the full amount of royalties due under the underlying license agreement. We did not record any revenues in the third quarter of fiscal 2017 for royalties due on the sales of Apple’s and the other licensee’s products. Royalty revenues related to the products of Apple’s contract manufacturers and the other licensee in dispute were approximately $1.7 billion in the first nine months of fiscal 2017. Additionally, QTL revenues in the third quarter and first nine months of fiscal 2018 were negatively impacted by lower royalty revenues recognized related to devices sold in prior periods from certain other licensees. Excluding the impact of these items, QTL revenues in the third quarter of fiscal 2018 decreased primarily due to a decrease in reported sales of CDMA-based products (including multi-mode products that also implement OFDMA) and revenues per reported unit, while QTL revenues in the first nine months of fiscal 2018 increased primarily due to increases in reported sales of CDMA-based products (including multi-mode products that also implement OFDMA) and revenues per reported unit.

QTL EBT as a percentage of revenues in the third quarter and first nine months of fiscal 2018 decreased primarily due to increases in selling, general and administrative expenses resulting from higher litigation costs. The decrease in QTL EBT as a percentage of revenues was partially offset in the third quarter of fiscal 2018 by higher QTL revenues. The decrease in QTL EBT as a percentage of revenues in the first nine months of fiscal 2018 was also attributable to lower QTL revenues. QTL revenues and EBT also continued to be impacted negatively by units that we believe are not being reported by certain other licensees and sales of certain unlicensed products. While we have reached agreements with many licensees, negotiations with certain other licensees and unlicensed companies are ongoing, particularly in emerging regions, including China, and additional litigation may become necessary if negotiations fail to resolve the relevant issues.

QSI Segment. The decrease in QSI EBT in the third quarter of fiscal 2018 was primarily due to the impact of $36 million resulting from lower revenues from certain development contracts with one of our equity method investees and a decrease of $32 million in net realized gains on investments. The increase in QSI EBT in the first nine months of fiscal 2018 was primarily due to higher net realized gains on investments.

Looking Forward

In the coming years, we expect continued growth in consumer demand for 3G/4G multi-mode and 4G products and services and new consumer demand for 5G products and services, around the world, driven primarily by smartphones. We also expect growth in new device categories and industries, driven by the expanding adoption of certain technologies that are already commonly used in smartphones by industry segments outside traditional cellular industries, such as automotive, IoT and networking.

As we look forward to the next several months and beyond, we expect our business to be impacted by the following key items:

- On October 27, 2016, we announced a definitive agreement (as amended on February 20, 2018 and April 19, 2018, the Purchase Agreement) under which Qualcomm River Holdings, B.V. (Qualcomm River Holdings), an indirect, wholly owned subsidiary of QUALCOMM Incorporated, proposed to acquire NXP Semiconductors N.V. (NXP). The transaction remains subject to receipt of regulatory clearance by the State Administration for Market Regulation in China (SAMR), which we believe is being impacted by the current state of U.S./China trade relations. In the absence of such approval or other material developments, we expect to terminate the transaction after 11:59 p.m. New York time on July 25, 2018, which is the “End Date” for the transaction under the Purchase Agreement. In accordance with the terms of the Purchase Agreement, in the absence of approval from SAMR prior to the End Date, NXP will be entitled to receive a termination fee of $2.0 billion from Qualcomm River Holdings, which will be paid using existing cash and cash equivalents. If events occur that cause us to not terminate the transaction, we will continue to pursue the acquisition of all of the issued and outstanding common shares of NXP for $127.50 per share in cash, representing estimated total cash consideration to be paid to NXP’s shareholders of $44 billion, in accordance with the Purchase Agreement.
- In the second quarter of fiscal 2018, we announced a cost plan designed to align our cost structure to our long-term margin targets. As part of this plan, we continue to execute on a series of targeted actions across our businesses to reduce annual costs by $1 billion, excluding incremental costs resulting from any future acquisition of a business. We expect these cost reductions to be fully captured in fiscal 2019. In connection with this plan, we expect to incur an additional $50 million to $150 million in restructuring and restructuring-related charges, and we have incurred $112 million and $422 million in restructuring and restructuring-related charges in the third quarter and first nine months of fiscal 2018, respectively.
- Regulatory authorities in certain jurisdictions continue to investigate our business practices, and other regulatory authorities may do so in the future. Unfavorable resolutions of one or more of these matters have had and could in the

future have a material adverse effect on our business with remedies that include, among others, injunctions, monetary damages or fines or other orders to pay money, and the issuance of orders to cease certain conduct and/or modify our business practices. Additionally, certain of our direct and indirect customers and licensees, including Apple, have pursued, and others may in the future pursue, litigation or arbitration against us related to our business.

Unfavorable resolutions of one or more of these matters have in the past had a material adverse effect on our business, and could in the future have a material adverse effect on our business including, among others, monetary damages, the loss of our ability to enforce one or more of our patents, and/or portions of our license agreements could be determined to be invalid or unenforceable. These activities have required, and we expect that they will continue to require, the investment of significant management time and attention and have resulted, and we expect that they will continue to result, in increased legal costs until the respective matters are resolved. See “Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies” and “Risk Factors” included in this Quarterly Report.

- We are currently in dispute with Apple surrounding what we believe is an attempt by Apple to reduce the amount of royalties that its contract manufacturers (who are Qualcomm licensees) are required to pay to us for use of our intellectual property. In the first nine months of fiscal 2018, such contract manufacturers did not fully report, and did not pay, royalties due on sales of Apple products. We have taken action against Apple’s contract manufacturers to compel them to pay the required royalties, and against Apple, as described more fully in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies.” We did not record any revenues in the first nine months of fiscal 2018 for royalties due on sales of Apple’s products, and as a result, QTL revenues and EBT were negatively impacted by these continued disputes. We expect these companies will continue to take such actions in the future, resulting in increased legal costs and negatively impacting our future revenues, as well as our financial condition, results of operations and cash flows until the respective disputes are resolved. In the third quarter of fiscal 2018, we entered into an interim agreement with the other licensee in dispute in which that licensee agreed to pay $700 million as partial payment for royalties due after the second quarter of fiscal 2017. That licensee paid $500 million in the third quarter of fiscal 2018 as a partial payment while negotiations continue. This payment does not reflect the full amount of royalties due under the underlying license agreement. If we do not reach a final agreement with that other licensee, it may not make any other payments or may not make full payments under the underlying license agreement, which may result in increased legal costs and will negatively impact our future revenues, as well as our financial condition, results of operations and cash flows until the dispute is resolved.
- We continue to believe that certain licensees, particularly those domiciled in China, are not fully complying with their contractual obligations to report their sales of licensed products to us, and certain companies, including unlicensed companies, particularly in emerging regions, including China, are delaying execution of new license agreements. We have made substantial progress in reaching agreements with many companies, primarily in China. However, negotiations with certain licensees and unlicensed companies are ongoing. We believe that the conclusion of new agreements with these companies will result in improved reporting. Litigation and/or other actions, such as those taken against Apple and its contract manufacturers, may be necessary to compel licensees to report and pay the required royalties for sales they have not previously reported and/or to compel unlicensed companies to execute licenses. Such litigation or other actions would result in increased legal costs.
- To position QTL for stability on a long-term basis, we have announced that our standard essential patent only licensing terms through 5G, Release 15 will remain at the same rate, consistent with our licensing program established in China for 3G and 4G devices. A small number of our licensees have entered into standard essential patent only agreements on a worldwide basis, and we expect more of our licensees may enter into such standard essential patent only agreements basis as existing agreements come up for renewal and/ or renegotiation. In addition, we have reduced the per unit royalty cap on smartphones, which is the base on which our royalties are calculated. While we expect these developments to enhance stability for the long term, they will impact QTL royalty revenues in the shorter term.
- We expect our business, particularly QCT, to continue to be impacted by industry dynamics, including:
- Concentration of device share among a few companies within the premium tier, resulting in significant supply chain leverage for those companies;
- Decisions by companies to utilize their own internally-developed integrated circuit products and/or sell such products to others, including by bundling with other products, increasing competition;
- Decisions by certain companies to utilize our competitors’ integrated circuit products in all or a portion of their devices. For example, we have not been the sole supplier of modems for iPhone products beginning with products that launched in September 2016, as Apple utilizes modems from one of our competitors in a portion of such devices. We expect that Apple will solely use one or more of our competitor’s modems, rather than our modems, in its next iPhone

release and may take similar actions in the future. Accordingly, QCT revenues from modem sales for iPhones are expected to decline in fiscal 2018 and may continue to decline in the future, in part depending on the extent of Apple's utilization of competitors' modems and the mix of the various versions of its products that are sold. Overall QCT revenues, as well as profitability, may similarly decline unless offset by sales of integrated circuit products to other customers, including those outside of traditional cellular industries, such as the Internet of Things (IoT), automotive and networking. Apple's sourcing of integrated circuit products does not impact our licensing revenues since our licensing revenues from Apple products are not dependent upon whether such products include our chipsets;

- Intense competition, particularly in China, as our competitors expand their product offerings and/or reduce the prices of their products as part of a strategy to attract new and/or retain existing customers;
- Lengthening replacement cycles in developed regions, where the smartphone industry is mature, premium-tier smartphones are common and consumer demand is increasingly driven by new product launches and/or innovation cycles;
- Lengthening replacement cycles in emerging regions as smartphone penetration increases; and
- Increasing consumer demand for 3G/4G smartphone products in emerging regions driven by availability of lower-tier 3G/4G devices.
- Current U.S./China trade relations may negatively impact our business, growth prospects and results of operations.
- We expect the ongoing rollout of 4G services in emerging regions will encourage competition and growth, bringing the benefits of 3G/4G LTE multi-mode to consumers.
- We continue to invest significant resources to develop our wireless baseband chips and our converged computing/communications (Snapdragon) chipsets, which incorporate technologies in the following areas, among others: advancements in 4G and 5G, OFDM-based WLAN, RFFE, connectivity, power management, graphics, audio and video codecs, multimedia, artificial intelligence and virtual/augmented reality, and all of which contribute to the expansion of our intellectual property portfolio. We are also investing in targeted opportunities that leverage our existing technical and business expertise to deploy new business models and enter and/or expand into new industry segments, such as products for automotive, IoT (including the connected home, smart cities, wearables, voice and music and robotics), networking, computing and machine learning, among others.

In addition to the foregoing business and market-based matters, we continue to devote resources to working with and educating participants in the wireless value chain and governments as to the benefits of our business model and our extensive technology investments in promoting a highly competitive and innovative wireless industry. However, we expect that certain companies may continue to be dissatisfied with the need to pay reasonable royalties for the use of our technology and not welcome the success of our business model in enabling new, highly cost-effective competitors to their products. We expect that such companies, and/or governments or regulators, will continue to challenge our business model in various forums throughout the world.

Further discussion of risks related to our business is presented in the Risk Factors included in this Quarterly Report.

Liquidity and Capital Resources

On October 27, 2016, we announced a Purchase Agreement under which Qualcomm River Holdings proposed to acquire NXP. The transaction remains subject to receipt of regulatory approval from SAMR and other closing conditions. In the absence of such approval or other material developments, we expect to terminate the transaction after 11:59 p.m. New York time on July 25, 2018, which is the “End Date” for the transaction under the Purchase Agreement. In accordance with the terms of the Purchase Agreement, in the absence of approval from SAMR prior to the End Date, NXP will be entitled to receive a termination fee of $2.0 billion from Qualcomm River Holdings, which will be paid using existing cash and cash equivalents.

If events occur that cause us to not terminate the transaction, we will continue to pursue the acquisition of all of the issued and outstanding common shares of NXP for $127.50 per share in cash, representing estimated total cash consideration to be paid to NXP's shareholders of $44 billion, in accordance with the Purchase Agreement. In such case, we could be required to pay NXP a termination fee of $2.0 billion if the transaction is subsequently terminated in certain circumstances, as set forth in the Purchase Agreement.

Qualcomm River Holdings entered into four letters of credit for an aggregate amount of $2.0 billion pursuant to which NXP will have the right to draw amounts to fund the potential termination fee payable to NXP. Upon our payment of the termination fee, NXP will no longer have the right to validly draw on the letters of credit. Each letter of credit is required to

40

be fully cash collateralized in an amount equal to 100% of its face value through deposits with the issuers of the letters of credit. We are restricted from using the funds deposited as collateral while the letters of credit are outstanding. At June 24, 2018, the letters of credit were fully collateralized through bank time and demand deposits.

Our principal sources of liquidity are our existing cash, cash equivalents and marketable securities, cash generated from operations, cash provided by our debt programs and proceeds from the issuance of common stock under our stock option and employee stock purchase plans. The following table presents selected financial information related to our liquidity as of June 24, 2018 and September 24, 2017 and for the first nine months of fiscal 2018 and 2017 (in millions):

	June 24, 2018	September 24, 2017	$ Change	% Change
Cash, cash equivalents and marketable securities	$35,945	$ 38,578	$(2,633)	(7 %)
Accounts receivable, net	3,163	3,632	(469)	(13 %)
Inventories	1,785	2,035	(250)	(12 %)
Short-term debt	7,103	2,495	4,608	185 %
Long-term debt	15,378	19,398	(4,020)	(21 %)
Noncurrent income taxes payable	2,659	—	2,659	N/M

N/M - Not meaningful

	Nine Months Ended			
	June 24, 2018	June 25, 2017	$ Change	% Change
Net cash provided by operating activities	$4,331	$2,577	$1,754	68 %
Net cash provided (used) by investing activities	2,615	(342)	2,957	N/M
Net cash (used) provided by financing activities	(6,337)	6,700	(13,037)	N/M

The net decrease in cash, cash equivalents and marketable securities was primarily due to $2.8 billion in cash deposited to redeem long-term debt in July 2018, $2.6 billion in cash dividends paid, $1.6 billion in repayment of long-term debt, $1.4 billion in payments to repurchase shares of our common stock and $625 million in capital expenditures, partially offset by net cash provided by operating activities and $2.2 billion of net issuances of our outstanding commercial paper debt. Total cash provided by operating activities increased primarily due to the effect of the $940 million payment in connection with the BlackBerry arbitration and the $927 million payment of the fine related to the KFTC investigation in the first nine months of fiscal 2017. Total cash provided by operating activities was also impacted by continued actions taken by Apple and its contract manufacturers who did not report or pay royalties due in the first nine months of fiscal 2018.

Our days sales outstanding, on a consolidated basis, decreased to 51 days at June 24, 2018, as compared to 56 days at September 24, 2017. The decrease in accounts receivable and the related days sales outstanding were primarily due to the timing of integrated circuit shipments and the collection of receivables related to integrated circuits. The decrease in days sales outstanding was also attributable to $500 million recognized as revenues and paid under an interim agreement with the other licensee in dispute. The decrease in inventories was primarily due to a decrease in the overall quantity of units on hand.

Debt. Our 2016 Amended and Restated Revolving Credit Facility provides for unsecured revolving facility loans, swing line loans and letters of credit in the aggregate amount of $5.0 billion, of which $530 million and $4.47 billion will expire in February 2020 and November 2021, respectively. At June 24, 2018, no amounts were outstanding under the revolving credit facility.

We have an unsecured commercial paper program, which provides for the issuance of up to $5.0 billion of commercial paper. Net proceeds from this program are used for general corporate purposes. At June 24, 2018, we had $3.2 billion of commercial paper outstanding with weighted-average net interest rates of 2.34% and weighted-average remaining days to maturity of 46 days.

Our 2018 Revolving Credit Facility, 2016 Term Loan Facility and our 2018 Term Loan Facility were established primarily to fund the proposed acquisition of NXP. In the event the NXP purchase agreement is terminated, these commitments will expire unused in accordance with their terms. Our 2018 Revolving Credit Facility provides for unsecured delayed-draw revolving facility loans in an aggregate amount of $3.0 billion. Our 2016 Term Loan Facility provides for senior unsecured delayed-draw term facility loans in an aggregate amount of $4.0 billion, and our 2018 Term Loan Facility provides for senior unsecured delayed-draw term facility loans in an aggregate amount of $7.0 billion. At June 24, 2018, no amounts were outstanding under the credit or term loan facilities.

In May 2017, we issued an aggregate principal amount of $11.0 billion in nine tranches of unsecured floating- and fixed-rate notes, with maturity dates starting in 2019 through 2047. Effective interest rates were between 2.70% and 4.74% at June 24, 2018. Interest is payable in arrears quarterly for the floating-rate notes and semi-annually for the fixed-rate notes.

In May 2018, we initiated offers to exchange and repurchase certain of our notes issued in May 2017 that were subject to special mandatory redemption provisions. We exchanged $122 million of notes and repurchased $71 million of notes in the aggregate. On May 31, 2018, we called for full redemption of our then-outstanding fixed-rate notes subject to special mandatory redemption provisions and irrevocably deposited cash of $2.8 billion with the trustee of the notes, of which $2.6 billion was paid to the holders of the fixed-rate notes on July 2, 2018, with the excess amount refunded to us. On June 8, 2018, we called for full redemption of our then-outstanding floating-rate notes of $1.2 billion subject to special mandatory redemption provisions, which was subsequently paid to the holders of the floating-rate notes on July 6, 2018. Our floating-rate notes due 2019, floating-rate notes due 2020 and 1.85% fixed-rate notes due 2019 issued in May 2018 as part of the exchange offers for an aggregate principal amount of $122 million are subject to a special mandatory redemption at a price equal to 101% of the aggregate principal amount, plus accrued and unpaid interest to, but excluding, the date of such mandatory redemption (the May 2018 Notes). The redemption is required on the first to occur of (i) the termination of the NXP purchase agreement or (ii) November 1, 2018, if the NXP transaction has not closed as of such date. In the event the NXP purchase agreement is terminated, the May 2018 Notes will be redeemed in accordance with their terms. We may redeem the fixed-rate notes issued in May 2018 at any time in whole, or from time to time in part, at specified make-whole premiums as defined in the applicable form of note.

In May 2015, we issued an aggregate principal amount of $10.0 billion in eight tranches of unsecured floating- and fixed-rate notes, of which $8.5 billion remains outstanding with maturity dates in 2020 through 2045. Effective interest rates were between 2.94% and 4.74% at June 24, 2018. Interest is payable in arrears quarterly for the floating-rate notes and semi-annually for the fixed-rate notes.

We may issue additional debt in the future. The amount and timing of such additional borrowings will be subject to a number of factors, including the cash flow generated by United States-based entities, acquisitions and strategic investments, acceptable interest rates and changes in corporate income tax law, among other factors.

Additional information regarding our outstanding debt at June 24, 2018 is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 5. Debt.”

Income Taxes. The Tax Legislation, which was signed into law during the first quarter of fiscal 2018, resulted in an estimated $5.3 billion charge related to the Toll Charge. We currently estimate that we will pay $2.7 billion for the Toll Charge, after application of certain tax credits (including those that are expected to be generated in fiscal 2018), which is payable in installments over eight years (8% in each of the first five years, 15% in year six, 20% in year seven and 25% in year eight) beginning on January 15, 2019.

Our cash, cash equivalents and marketable securities at June 24, 2018 consisted of $5.7 billion held by our United States-based entities and $30.2 billion held by our foreign entities. The Tax Legislation eliminated certain material tax effects on the repatriation of cash to the United States. As of December 24, 2017, we no longer consider available cash balances that existed at the end of fiscal 2017 related to undistributed pre-fiscal 2018 earnings and profits of certain U.S.-owned foreign subsidiaries to be indefinitely reinvested. We otherwise continue to consider other undistributed earnings of certain U.S.-owned foreign subsidiaries to be indefinitely reinvested based on our current plans for use and/or investment outside of the U.S., and therefore, no liability has been recorded for such taxes. However, as a result of the Tax Legislation, we are reassessing our intentions related to our indefinite reinvestment assertion. Should we decide to no longer indefinitely reinvest such earnings outside the U.S., we would have to adjust the income tax provision in the period such determination is made.

Additional information regarding our income taxes is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 3. Income Taxes.”

Capital Return Program. In the first nine months of fiscal 2018, we repurchased and retired 24.2 million shares of our common stock for $1.4 billion, before commissions. On May 9, 2018, we announced that we had been authorized to repurchase up to $10 billion of our common stock. The $10 billion stock repurchase program replaced a $15 billion stock repurchase program announced on March 9, 2015, of which $1.2 billion remained authorized for repurchase

under the prior program. At June 24, 2018, $9.0 billion remained authorized for repurchase under the stock repurchase program announced in May 2018.
In the event the agreement to acquire NXP is terminated, we intend to implement a stock repurchase program to repurchase up to $30 billion of our outstanding common stock. This stock repurchase program will significantly reduce the amount of cash that we have available to fund our operations (including research and development), working capital, capital

42

expenditures, acquisitions, investments, dividends and other corporate purposes; and limit our flexibility in planning for or reacting to, and increase our vulnerability to, adverse economic, market, industry and competitive conditions and developments, and other changes in our business and our industry. This new stock repurchase program, if implemented, will have no expiration date and will replace the May 2018 stock repurchase program.

However, we periodically evaluate repurchases as a means of returning capital to stockholders to determine when and if repurchases are in the best interests of our stockholders and may accelerate, suspend, delay or discontinue repurchases at any time.

In the first nine months of fiscal 2018, we paid cash dividends totaling $2.6 billion, or $1.76 per share. On July 12, 2018, we announced a cash dividend of $0.62 per share on our common stock, payable on September 26, 2018 to stockholders of record as of the close of business on September 5, 2018. We intend to continue to use cash dividends as a means of returning capital to stockholders, subject to capital availability and our view that cash dividends are in the best interests of our stockholders.

Additional Capital Requirements. We believe our cash, cash equivalents and marketable securities, our expected cash flow generated from operations and our expected financing activities will satisfy our working and other capital requirements for at least the next 12 months based on our current business plans. Recent and expected working and other capital requirements, in addition to the above matters, also include the items described below.

- We expect the majority of the charges incurred in connection with our Cost Plan will result in cash payments. Our restructuring accrual was $252 million at June 24, 2018, and we expect to incur additional restructuring and restructuring-related charges of approximately $50 million to $150 million.
- Our purchase obligations at June 24, 2018, some of which relate to research and development activities and capital expenditures, totaled $2.8 billion and $1.7 billion for fiscal 2018 and 2019, respectively, and $663 million thereafter.
- Our research and development expenditures were $4.2 billion in the first nine months of fiscal 2018 and $5.5 billion in fiscal 2017, and we expect to continue to invest heavily in research and development for new technologies, applications and services for voice and data communications.
- Cash outflows for capital expenditures were $625 million in the first nine months of fiscal 2018 and $690 million in fiscal 2017. We expect to continue to incur capital expenditures in the future to support our business, including research and development activities. Future capital expenditures may be impacted by transactions that are currently not forecasted.
- The TFTC imposed a fine on us, of which $708 million remained outstanding at June 24, 2018 (based on the exchange rate at June 24, 2018 and including related foreign currency gains), which will be paid in monthly installments through December 2022.
- The EC imposed a fine on us, of which $1.2 billion was accrued at June 24, 2018 (based on the exchange rate at June 24, 2018, including related foreign currency gains and accrued interest). In the third quarter of 2018, we provided financial guarantees in lieu of cash payment to satisfy the obligation. The fine is accruing interest at a rate of 1.50% per annum until it is paid or annulled.
- We expect to continue making strategic investments and acquisitions, the amounts of which could vary significantly, to open new opportunities for our technologies, obtain development resources, grow our patent portfolio or pursue new businesses.

Contractual Obligations/Off-Balance Sheet Arrangements

We have no significant contractual obligations not fully recorded on our consolidated balance sheets or fully disclosed in the notes to our condensed consolidated financial statements. We have no material off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii).

Additional information regarding our financial commitments at June 24, 2018 is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 3. Income Taxes,” “Note 5. Debt,” “Note 6. Commitments and Contingencies” and “Note 8. Acquisitions.”

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements and the impact of those pronouncements, if any, on our consolidated financial statements is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 1. Basis of Presentation.”

43

Risk Factors

You should consider each of the following factors as well as the other information in this Quarterly Report in evaluating our business and our prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also negatively impact our business and results of operations, and require significant management time and attention. In that case, the trading price of our common stock could decline. You should also consider the other information set forth in this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended September 24, 2017 in evaluating our business and our prospects, including but not limited to our financial statements and the related notes and "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risks Related to Our Businesses

Our proposed acquisition of NXP Semiconductors N.V. (NXP), and our intended termination of that acquisition, entails a number of risks that may adversely affect our business and results of operations.

Our proposed acquisition of NXP has not been approved by the State Administration for Market Regulation in China (SAMR). In the absence of such approval or other material developments, we expect to terminate the transaction after 11:59 p.m. New York time on July 25, 2018, which is the "End Date" for the transaction under the Purchase Agreement. As a result, we would not realize the benefits that we anticipated from the acquisition, including, but not limited to, increased revenues; accelerated revenue diversification; significantly expanded addressable markets and opportunities; accelerated entry into new industry segments and expansion in existing industry segments; new and expanded product offerings and technologies; accelerated expansion of sales and distribution channels; cost and other synergies; and earnings accretion from the acquisition. In addition, future acquisitions may be more difficult, complex or expensive to the extent that our reputation for our ability to consummate acquisitions is harmed. Further, if U.S./China trade relations remain strained, our ability to consummate any transaction that would require SAMR approval may be severely impacted.

If the proposed transaction is terminated, our stock price could fall and we may suffer other consequences that could adversely affect our business, results of operations and stock price, including, among others:

- we would be required to pay a termination fee to NXP of $2.0 billion;
- we will have incurred and may continue to incur costs relating to the transaction, many of which are payable by us even if the transaction is not completed;
- matters relating to the transaction (including integration planning) required substantial commitments of time and resources by our management team and numerous others throughout our organization, which could otherwise have been devoted to other opportunities;
- we may be subject to legal proceedings related to the failure to complete the transaction;
- the failure to consummate the transaction may result in negative publicity and a negative perception of us in the investment community; and
- any disruptions to our business resulting from the announcement and pendency of the transaction, including any adverse changes in our relationships with our customers, suppliers, partners or employees, may continue or intensify if the transaction is not consummated.

Even if we receive approval of the NXP transaction from SAMR, or there are other material developments that cause us to not terminate the NXP acquisition, the proposed transaction involves a number of risks, including, among others, the risk that we fail to complete the acquisition, regulatory risks, risks associated with our use of a significant portion of our cash and our taking on significant indebtedness, other financial risks, integration risks, and risk associated with the reactions of customers, suppliers and employees.

Our and NXP's obligations to consummate the proposed transaction are subject to the satisfaction or waiver of certain conditions, including, among others: (i) the tender of a minimum number of NXP's outstanding common shares in the tender offer commenced by a subsidiary of QUALCOMM Incorporated; (ii) the receipt of regulatory clearance from SAMR; (iii) the absence of any law or order prohibiting the proposed transaction; (iv) there being no event that would have a material adverse effect on NXP; (v) the accuracy of the representations and warranties of NXP, subject to certain exceptions, and NXP's material compliance with its covenants, in the Purchase Agreement; and (vi) the completion of certain internal reorganization steps with respect to NXP and the disposition of certain non-core assets of NXP. We cannot provide assurance that the conditions to the completion of the proposed transaction will be satisfied.

The final regulatory approval required in connection with the proposed transaction may not ultimately be obtained or may contain materially burdensome conditions. If any conditions or changes to the structure of the proposed transaction are required to obtain this regulatory approval, they may have the effect of jeopardizing or delaying completion of the proposed transaction or reducing our anticipated benefits. If we agree to any material conditions in order to obtain this approval, our business and results of operations may be adversely affected.

In addition, the use of a significant portion of our cash and the incurrence of substantial indebtedness in connection with the financing of the proposed transaction will reduce our liquidity, and may limit our flexibility in responding to other business opportunities and increase our vulnerability to adverse economic and industry conditions. See the Risk Factor entitled "There are risks associated with our indebtedness and our significant proposed stock repurchase program."

The proposed transaction will be our largest acquisition to date, by a significant margin. The benefits we expect to realize from the proposed transaction will depend, in part, on our ability to integrate the businesses successfully and efficiently. See the Risk Factor entitled "We may engage in strategic acquisitions, transactions or make investments, or be unable to consummate planned strategic acquisitions, which could adversely affect our results of operations or fail to enhance stockholder value."

Furthermore, uncertainties about the proposed transaction may cause our and/or NXP's current and prospective employees to experience uncertainty about their futures. These uncertainties may impair our and/or NXP's ability to retain, recruit or motivate key management, engineering, technical and other personnel. Similarly, our and/or NXP's existing or prospective customers, licensees, suppliers and/or partners may delay, defer or cease purchasing products or services from or providing products or services to us or NXP; delay or defer other decisions concerning us or NXP; or otherwise seek to change the terms on which they do business with us or NXP. Any of the above could harm us and/or NXP, and thus decrease the benefits we expect to receive from the proposed transaction.

The proposed transaction may also result in significant charges or other liabilities that could adversely affect our results of operations, such as cash expenses and non-cash accounting charges incurred in connection with our acquisition and/or integration of the business and operations of NXP. Further, our failure to identify or accurately assess the magnitude of certain liabilities we are assuming in the proposed transaction could result in unexpected litigation or regulatory exposure, unfavorable accounting charges, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on our business, results of operations, financial condition or cash flows.

Our revenues depend on commercial network deployments, expansions and upgrades of CDMA, OFDMA and other communications technologies; our customers' and licensees' sales of products and services based on these technologies; and customers' demand for our products and services.

We develop, patent and commercialize technology and products based on CDMA, OFDMA and other communications technologies, which are primarily wireless. We depend on operators of wireless networks and our customers and licensees to adopt and/or implement the latest generation of these technologies for use in their networks, devices and services. We also depend on our customers and licensees to develop devices and services based on these technologies with value-added features to drive consumer demand for new 3G, 3G/4G multi-mode and 4G devices, and in the future 5G devices, as well as establishing the selling prices for such devices. Further, we depend on the timing of our customers' and licensees' deployments of new devices and services based on these technologies. Increasingly, we also depend on operators of wireless networks, our customers and licensees and other third parties to incorporate these technologies into new device types and into industries beyond traditional cellular communications, such as automotive, the internet of things (IoT) (including the connected home, smart cities, wearables, voice and music and robotics), networking, computing and machine learning, among others. We are also impacted by consumers' rates of replacement of smartphones and other computing devices.

Our revenues and/or growth in revenues could be negatively impacted, our business may be harmed and our substantial investments in these technologies may not provide us an adequate return, if:

- wireless operators and industries beyond traditional cellular communications deploy alternative technologies;
- wireless operators delay next-generation network deployments, such as 5G, expansions or upgrades and/or delay moving 2G customers to 3G, 3G/4G multi-mode or 4G wireless devices;
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LTE, an OFDMA-based wireless technology, is not more widely deployed or further commercial deployment is delayed;

- government regulators delay making sufficient spectrum available for 3G, 4G and new spectrum sharing technologies that we are developing in conjunction with 3G and 4G, as well as for 5G, thereby restricting the ability of wireless operators to deploy or expand the use of these technologies;

45

- wireless operators delay or do not drive improvements in 3G, 4G or 3G/4G multi-mode network performance and/or capacity;
- our customers' and licensees' revenues and sales of products, particularly premium-tier products, and services using these technologies do not grow or do not grow as quickly as anticipated due to, for example, the maturity of smartphone penetration in developed regions;
- our intellectual property and technical leadership included in the 5G standardization effort is different than in 3G and 4G standards;
- the standardization and/or deployment of 5G technology is delayed; and/or
- we are unable to drive the adoption of our products and services into networks and devices, including devices beyond traditional cellular applications, based on CDMA, OFDMA and other communications technologies.

Our industry is subject to competition in an environment of rapid technological change that could result in decreased demand and/or declining average selling prices for our products and/or those of our customers and/or licensees.

Our products, services and technologies face significant competition. We expect competition to increase as our current competitors expand their product offerings or reduce the prices of their products as part of a strategy to attract new business and/or customers, as new opportunities develop and as new competitors enter the industry. Competition in wireless communications is affected by various factors that include, among others: device manufacturer concentrations and vertical integration; growth in demand, consumption and competition in certain geographic regions; government intervention and/or support of national industries and/or competitors; evolving industry standards and business models; evolving methods of transmission of voice and data communications; increasing data traffic and densification of wireless networks; convergence and aggregation of connectivity technologies (including Wi-Fi and LTE) in both devices and access points; consolidation of wireless technologies and infrastructure at the network edge; networking and connectivity trends (including cloud services); use of both licensed and unlicensed spectrum; the evolving nature of computing (including demand for always on, always connected capabilities); the speed of technological change (including the transition to smaller geometry process technologies); value-added features that drive selling prices as well as consumer demand for new 3G, 3G/4G multi-mode and 4G devices; turnkey, integrated products that incorporate hardware, software, user interface, applications and reference designs; scalability; and the ability of the system technology to meet customers' immediate and future network requirements. We anticipate that additional competitors will introduce products as a result of growth opportunities in wireless communications, the trend toward global expansion by foreign and domestic competitors, technological and public policy changes and relatively low barriers to entry in certain segments of the industry. Additionally, the semiconductor industry has experienced and may continue to experience consolidation, which could result in significant changes to the competitive landscape.

We expect that our future success will depend on, among other factors, our ability to:

- differentiate our integrated circuit products with innovative technologies across multiple products and features (e.g., modem, radio frequency front-end (RFFE), graphics and/or other processors, camera and connectivity) and with smaller geometry process technologies that drive performance;
- develop and offer integrated circuit products at competitive cost and price points to effectively cover both emerging and developed geographic regions and all device tiers;
- continue to drive the adoption of our integrated circuit products into the most popular device models and across a broad spectrum of devices, such as smartphones, tablets, laptops and other computing devices, automobiles, wearables and voice and music and other connected devices and infrastructure products;
- maintain and/or accelerate demand for our integrated circuit products at the premium device tier, while increasing the adoption of our products in mid- and low-tier devices, in part by strengthening our integrated circuit product roadmap for, and developing channel relationships in, emerging regions, such as China and India, and by providing turnkey products, which incorporate our integrated circuits, for low- and mid-tier smartphones, tablets and laptops;
- continue to be a leader in 4G technology evolution, including expansion of our LTE-based single-mode licensing program in areas where single-mode products are commercialized, and continue to innovate and introduce 4G turnkey, integrated products and services that differentiate us from our competition;
- be a leader serving original equipment manufacturers, high level operating systems (HLOS) providers, operators, cloud providers and other industry participants as competitors, new industry entrants and other factors continue to

affect the industry landscape;

- be a preferred partner (and sustain preferred relationships) providing integrated circuit products that support multiple operating system and infrastructure platforms to industry participants that effectively commercialize new devices using these platforms;
- increase and/or accelerate demand for our semiconductor component products, including RFFE, and our wired and wireless connectivity products, including networking products for consumers, carriers and enterprise equipment and connected devices;
- identify potential acquisition targets that will grow or sustain our business or address strategic needs, reach agreement on terms acceptable to us, close the transactions and effectively integrate these new businesses and/or technologies;
- create standalone value and/or contribute to the success of our existing businesses through acquisitions, joint ventures and other transactions (and/or by developing customer, licensee and/or vendor relationships) in new industry segments and/or disruptive technologies, products and/or services (such as products for automotive, IoT (including the connected home, smart cities, wearables, voice and music and robotics), networking, computing and machine learning, among others);
- become a leading supplier of RFFE products, which are designed to address cellular radio frequency band fragmentation while improving radio frequency performance and assist original equipment manufacturers in developing multiband, multi-mode mobile devices;
- be a leader in 5G technology development, standardization, intellectual property creation and licensing, and develop and commercialize 5G integrated circuit products and services; and/or
- continue to develop brand recognition to effectively compete against better known companies in computing and other consumer driven segments and to deepen our presence in significant emerging regions.

Competition in any or all product tiers may result in the loss of certain business or customers, which would negatively impact our revenues, results of operations and cash flows. Such competition may also reduce average selling prices for our chipset products and/or the products of our customers and licensees. Certain of these dynamics are particularly pronounced in emerging regions where competitors may have lower cost structures and/or may have a willingness and ability to accept lower prices and/or lower or negative margins on their products (particularly in China). Reductions in the average selling prices of our chipset products, without a corresponding increase in volumes, would negatively impact our revenues, and without corresponding decreases in average unit costs, would negatively impact our margins. In addition, reductions in the average selling prices of our licensees' products, unless offset by an increase in volumes, would generally decrease total royalties payable to us, negatively impacting our licensing revenues.

We compete with many different semiconductor companies, ranging from multinational companies with integrated research and development, manufacturing, sales and marketing organizations across a broad spectrum of product lines, to companies that are focused on a single application market segment or standard product, including those that produce products for automotive, IoT and networking applications. Most of these competitors compete with us with respect to some, but not all, of our businesses. Companies that promote standards that are neither CDMA- nor OFDMA-based (e.g., GSM) as well as companies that design integrated circuits based on CDMA, OFDMA, Wi-Fi or their derivatives are generally competitors or potential competitors. Examples (some of which are strategic partners of ours in other areas) include Advanced Micro Devices, Inc., Broadcom Limited, Cirrus Logic, Cypress Semiconductor Corporation, HiSilicon Technologies, Intel, Marvell Technology, Maxim Integrated Products, MediaTek, Microchip Technology Inc., Murata Manufacturing Co., Ltd., Nordic Semiconductor, Nvidia, Qorvo Inc., Realtek Semiconductor, Renesas Electronics Corporation, Samsung Electronics, Sequans Communications S.A., Skyworks Solutions Inc., Sony Corporation and Spreadtrum Communications (which is controlled by Tsinghua Unigroup).

Some of these current and potential competitors may have advantages over us that include, among others: motivation by our customers in certain circumstances to utilize their own internally-developed integrated circuit products, to use our competitors' integrated circuit products and/or sell such products to others, including by bundling with other products, or to choose alternative technologies; lower cost structures and/or a willingness and ability to accept lower prices and lower or negative margins for their products, particularly in China; foreign government support of other technologies or competitors; better known brand names; ownership and control of manufacturing facilities and greater expertise in manufacturing processes; more extensive relationships with local distribution companies and original equipment manufacturers in certain geographic regions (such as China) and/or experience in adjacent industry segments outside traditional cellular industries (such as automotive and IoT); and/or a more established presence in certain regions.

47

We derive a significant portion of our consolidated revenues from a small number of customers and licensees. If revenues derived from these customers or licensees decrease or the timing of such revenues fluctuates, our business and results of operations could be negatively affected.

Our QCT segment derives a significant portion of its revenues from a small number of customers, and we expect this trend to continue in the foreseeable future. Our industry is experiencing and may continue to experience concentration of device share among a few companies, particularly at the premium tier, contributing to this trend. In addition, certain of our largest integrated circuit customers develop their own integrated circuit products, which they have in the past chosen to utilize in certain of their devices rather than our products, and may in the future choose to utilize in certain (or all) of their devices rather than our products (and/or sell their integrated circuit products to third parties in competition with us). Also, one of our integrated circuit customers, which has historically been one of our largest customers, now utilizes products of one of our competitors in many of their devices rather than our products. We expect this customer will solely utilize one or more or our competitor's products in its next smartphone launch and may take similar actions in the future.

The loss of any one of our significant customers, a reduction in the purchases of our products by such customers or the cancelation of significant purchases by any of these customers, whether due to the use of their own integrated circuit products, our competitors' integrated circuit products or otherwise, would reduce our revenues and could harm our ability to achieve or sustain expected results of operations, and a delay of significant purchases, even if only temporary, would reduce our revenues in the period of the delay. Any such reduction in revenues would also impact our cash resources available for other purposes, such as research and development. Further, the concentration of device share among a few companies, and the corresponding purchasing power of these companies, may result in lower prices for our products which, if not accompanied by a sufficient increase in the volume of purchases of our products, could have an adverse effect on our revenues and margins. In addition, the timing and size of purchases by our significant customers may be impacted by the timing of such customers' new or next generation product introductions, over which we have no control, and the timing and/or success of such introductions may cause our revenues and results of operations to fluctuate. Accordingly, if current industry dynamics and concentrations continue, our QCT segment's revenues will continue to depend largely upon, and be impacted by, future purchases, and the timing and size of any such future purchases, by these significant customers.

One of our integrated circuit customers, which has historically been one of our largest customers, purchases our Mobile Data Modem (MDM) products, which do not include our integrated application processor technology and which have lower revenue and margin contributions than our combined modem and application processor products. To the extent such customer takes device share from our other customers who purchase our integrated modem and application processor products, our revenues and margins may be negatively impacted.

Further, companies that develop HLOS for devices, including leading technology companies, now sell their own devices. If we fail to effectively partner or continue partnering with these companies, or with their partners or customers, they may decide not to purchase (either directly or through their contract manufacturers), or to reduce or discontinue their purchases of, our integrated circuit products.

In addition, there has been and continues to be litigation among certain of our customers and other industry participants, and the potential outcomes of such litigation, including but not limited to injunctions against devices that incorporate our products and/or intellectual property, or rulings on certain patent law or patent licensing issues that create new legal precedent, could impact our business, particularly if such action impacts one of our larger customers.

Although we have more than 300 licensees, our QTL segment derives a significant portion of its licensing revenues from a limited number of licensees. In the event that one or more of our significant licensees fail to meet their reporting and/or payment obligations, or we are unable to renew or modify one or more of such license agreements under similar terms, our revenues, results of operations and cash flows would be adversely impacted. Moreover, the future growth and success of our core licensing business will depend in part on the ability of our licensees to develop, introduce and deliver high-volume products that achieve and sustain customer acceptance. We have no control over the product development, sales efforts or pricing of products by our licensees, and our licensees might not be successful. Reductions in the average selling prices of wireless devices sold by our licensees, without a sufficient increase in the volumes of such devices sold, would generally have an adverse effect on our licensing revenues. Such adverse impact may be muted by the per unit running royalty caps that apply to certain categories of complete wireless devices, namely smartphones, tablets and laptops.

We derive a significant portion of our consolidated revenues from the premium-tier device segment. If sales of premium-tier devices decrease, and/or sales of our premium-tier integrated circuit products decrease, our results of operations could be negatively affected.

We derive a significant portion of our revenues from the premium-tier device segment, and we expect this trend to continue in the foreseeable future. We have experienced, and expect to continue to experience, slowing growth in the premium-tier device segment due to, among other factors, lengthening replacement cycles in developed regions, where premium-tier smartphones are common; increasing consumer demand in emerging regions, particularly China and India, where premium-tier smartphones are less common and replacement cycles are on average longer than in developed regions; lengthening replacement cycles in emerging regions; and/or a maturing premium-tier smartphone industry in which demand is increasingly driven by new product launches and/or innovation cycles.

In addition, as discussed in the prior risk factor, our industry is experiencing concentration of device share among a few companies at the premium tier, which gives them significant supply chain leverage. Further, those companies may utilize their own internally-developed integrated circuit products, or our competitors' integrated circuit products, rather than our products in all or a portion of their devices. These dynamics may result in lower prices for and/or reduced sales of our premium-tier integrated circuit products.

A reduction in sales of premium-tier devices, or a reduction in sales of our premium-tier integrated circuit products (which have a higher revenue and margin contribution than our lower-tier integrated circuit products), may reduce our revenues and margins and may harm our ability to achieve or sustain expected financial results. Any such reduction in revenues would also impact our cash resources available for other purposes, such as research and development.

Efforts by some communications equipment manufacturers or their customers to avoid paying fair and reasonable royalties for the use of our intellectual property may require the investment of substantial management time and financial resources and may result in legal decisions and/or actions by governments, courts, regulators or agencies, Standards Development Organizations (SDOs) or other industry organizations that harm our business.

From time to time, companies initiate various strategies to attempt to renegotiate, mitigate and/or eliminate their need to pay royalties to us for the use of our intellectual property. These strategies have included: (i) litigation, often alleging infringement of patents held by such companies, patent misuse, patent exhaustion, patent invalidity and/or unenforceability of our patents and/or licenses, that we do not license our patents on fair, reasonable and nondiscriminatory (FRAND) terms, or some form of unfair competition or competition law violation; (ii) taking positions contrary to our understanding of their contracts with us; (iii) appeals to governmental authorities; (iv) collective action, including working with wireless operators, standards bodies, other like-minded companies and other organizations, on both formal and informal bases, to adopt intellectual property policies and practices that could have the effect of limiting returns on intellectual property innovations; (v) lobbying governmental regulators and elected officials for the purpose of seeking the reduction of royalty rates or the base on which royalties are calculated, of seeking to impose some form of compulsory licensing and/or of weakening a patent holder's ability to enforce its rights or obtain a fair return for such rights; and (vi) licensees using various strategies to attempt to shift their royalty obligation to their suppliers that results in lowering the wholesale (i.e., licensee's) selling price on which the royalty is calculated. In addition, certain licensees have disputed, underreported, underpaid, not reported and/or not paid royalties owed to us under their license agreements or reported to us in a manner that is not in compliance with their contractual obligations, and certain companies have yet to enter into or delayed entering into or renewing license agreements with us for their use of our intellectual property, and licensees and/or companies may continue to do so in the future. The fact that one or more licensees dispute, underreport, underpay, do not report and/or do not pay royalties owed to us may encourage other licensees to take similar actions and may encourage other licensees or unlicensed companies to delay entering into, or not enter into, new license agreements. Further, to the extent such licensees and/or companies increase their device share, the negative impact of their underreporting, underpayment, non-payment and/or non-reporting on our business, revenues, results of operations, financial condition and/or cash flows will be exacerbated.

We are currently subject to various litigation and governmental investigations and/or proceedings, some of which have arisen and may continue to arise out of the strategies described above. Certain legal matters are described more fully in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies." The unfavorable resolution of one or more of these matters could have a material adverse effect on our business, revenues, results of operations, financial condition and/or cash flows. Depending on the type of matter, various remedies that could result from an unfavorable resolution include, among others, injunctions, monetary damages or fines or other orders to pay money and/or the issuance of orders to cease certain conduct and/or modify our business practices. In addition, decisions or orders arising out of governmental investigations or proceedings could require us to renegotiate, or could encourage or embolden our licensees to demand to renegotiate, their license agreements with us (which could be on terms that are less favorable to us than existing terms), and such licensees may underreport, underpay, not report or not pay royalties owed to us pending the conclusion of such negotiations. Further, a governmental body in a particular country or region may assert, and may be successful in imposing, remedies with effects that extend beyond the borders of that country or region. See also the Risk Factor entitled “Changes in our patent licensing practices, whether due to governmental investigations, private legal proceedings challenging those practices or otherwise, could adversely impact our business and results of operations.”

In addition, in connection with our participation in SDOs, we, like other patent owners, generally have made contractual commitments to such organizations to license those of our patents that would necessarily be infringed by standard-compliant products as set forth in those commitments. Some manufacturers and users of standard-compliant products advance interpretations of these commitments that are adverse to our licensing business, including interpretations that would limit the amount of royalties that we could collect on the licensing of our patent portfolio. Further, some companies or entities have proposed significant changes to existing intellectual property policies for implementation by SDOs and other industry organizations with the goal of significantly devaluing standard-essential patents. For example, some have put forth proposals which would require a maximum aggregate intellectual property royalty rate for the use of all standard-essential patents owned by all of the member companies to be applied to the selling price of any product implementing the relevant standard. They have further proposed that such maximum aggregate royalty rate be apportioned to each member company with standard-essential patents based upon the number of standard-essential patents held by such company. Others have proposed that injunctions not be an available remedy for infringement of standard-essential patents and/or have made proposals that could severely limit damage awards and other remedies by courts for patent infringement (e.g., by severely limiting the base upon which the royalty percentage may be applied). A number of these strategies are purportedly based on interpretations of the policies of certain SDOs concerning the licensing of patents that are or may be essential to industry standards and on our (and/or other companies') alleged failure to abide by these policies.

Some SDOs, courts and governmental agencies have adopted and may in the future adopt some or all of these interpretations or proposals in a manner adverse to our interests, including in litigation to which we may not be a party.

We expect that such proposals, interpretations and strategies will continue in the future, and if successful, our business model would be harmed, either by limiting or eliminating our ability to collect royalties (or by reducing the royalties we can collect) on all or a portion of our patent portfolio, limiting our return on investment with respect to new technologies, limiting our ability to seek injunctions against infringers of our standard-essential patents, constraining our ability to make licensing commitments when submitting our technology for inclusion in future standards (which could make our technology less likely to be included in such standards) or forcing us to work outside of SDOs or other industry groups to promote our new technologies, and our revenues, results of operations and/or cash flows could be negatively impacted. In addition, the legal and other costs associated with asserting or defending our positions have been and continue to be significant. We assume that such challenges, regardless of their merits, will continue into the foreseeable future and may require the investment of substantial management time and financial resources.

Our business, particularly our licensing business, may suffer as a result of adverse rulings in government investigations or proceedings.

We are currently subject to various governmental investigations and/or proceedings, particularly with respect to our licensing business, and certain such matters are described more fully in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies." Key allegations in those matters include, among others, that we do not license our cellular standard-essential patents separately from our other patents, that we violate FRAND licensing commitments by refusing to grant licenses to chipset makers, that our royalty rates are too high and/or that the base on which our royalties are calculated should be something less than the wholesale (i.e., licensee's) selling price of the applicable device (minus certain permitted deductions). The unfavorable resolution of one or more of these matters could have a material adverse effect on our business, results of operations, financial condition and/or cash flows. Depending on the type of matter, various remedies that could result from an unfavorable resolution include, among others, injunctions, monetary damages or fines or other orders to pay money, and/or the issuance of orders to cease certain conduct and/or modify our business practices. In addition, decisions or orders arising out of such governmental investigations or proceedings could require us to renegotiate, or could encourage or embolden our licensees to demand to renegotiate, their license agreements with us (which could be on terms that are less favorable to us than existing terms), and such licensees may underreport, underpay, not report or not pay royalties owed to us pending the conclusion of such negotiations. Further, a governmental body in a particular country or region may assert, and may be successful in imposing, remedies with effects that extend beyond the borders of that country or region. See also the Risk Factor entitled "Changes in our patent licensing practices, whether due to governmental investigations, private legal proceedings challenging those practices or otherwise, could adversely impact our business and results of operations."

Changes in our patent licensing practices, whether due to governmental investigations, private legal proceedings challenging those practices or otherwise, could adversely impact our business and results of operations.

We are currently subject to various governmental investigations and private legal proceedings challenging our patent licensing practices as described more fully in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies." Key allegations in those matters include, among others, that we do not license our cellular standard-essential patents separately from our other patents, that we violate FRAND licensing commitments by refusing to grant licenses to chipset makers, that our royalty rates are too high and/or that the base on which our royalties are calculated should be something less than the wholesale (i.e., licensee's) selling price of the applicable device (minus certain permitted deductions). We believe that the ultimate intent of these investigations and legal proceedings is to reduce the amount of royalties that licensees are required to pay to us for their use of our intellectual property.

We have historically licensed our cellular standard-essential patents together with our other patents that may be useful to licensed products because licensees typically have desired to obtain the commercial benefits of receiving such broad patent rights from us. However, we also have licensed only our cellular standard-essential patents to certain licensees who have requested such licenses. In addition, in connection with our resolution with the China National Development and Reform Commission (NDRC), our standard practice in China since 2015 is to offer licenses to our 3G and 4G standard-essential Chinese patents for devices sold for use in China separately from our other patents. We offer licenses to only our cellular standard-essential patents (including 3G, 4G and 5G) for both single mode and multi-mode devices. A small number of our licensees have entered into standard-essential patent only agreements on a worldwide basis, and we expect more of our licensees may do so in the future. Our royalty rates for licenses to only our cellular standard-essential patents are lower than our royalty rates for licenses to substantially all of our patent portfolio. If more licensees choose a license to only our cellular standard-essential patents instead of a portfolio license than has historically been the case, our licensing revenues and earnings would be negatively impacted unless we were able to license our other patents at rates that offset all or a portion of any difference between the royalties previously received for licenses of substantially all of our patent portfolio as compared to licenses of only our cellular standard-essential patents and/or there was a sufficient increase in the overall volume of sales of devices upon which royalties are paid.

If we were required to grant patent licenses to chipset manufacturers (i.e., to implement a more complex, tiered licensing structure in which we license certain portions of our patent portfolio to chipset manufacturers and other portions to device manufacturers), we would incur additional transaction costs, which may be significant, and we could incur delays in recognizing revenues until license negotiations were completed. In addition, our licensing revenues and earnings would be negatively impacted if we were not able to obtain, in the aggregate, equivalent revenues under such a multi-level licensing structure.

If we were required to reduce the royalty rates we charge under our patent license agreements, our revenues, earnings and/or cash flows would be negatively impacted absent a sufficient increase in the volume of sales of devices upon which royalties are paid. Similarly, if we were required to reduce the base on which our royalties are calculated, our revenues, results of operations and/or cash flows would be negatively impacted unless there was a sufficient increase in the volume of sales of devices upon which royalties are paid and/or we were able to increase our royalty rates to offset the decrease in revenues resulting from such lower royalty base (assuming the absolute royalty dollars were below any relevant royalty caps).

To the extent that we were required to implement any of these new licensing practices by modifying or renegotiating our existing license agreements, we would incur additional transaction costs, which may be significant, and we could incur delays in recognizing revenues until license negotiations were completed. The impact of any such changes to our licensing practices could vary widely and by jurisdiction, depending on the specific outcomes and the geographic scope of such outcomes. In addition, if we were required to make modifications to our licensing practices in one jurisdiction, licensees and/or governmental agencies in other jurisdictions may attempt to obtain similar outcomes for themselves and/or for such other jurisdictions, as applicable.

The enforcement and protection of our intellectual property rights may be expensive, could fail to prevent misappropriation or unauthorized use of our intellectual property rights, could result in the loss of our ability to enforce one or more patents, and/or could be adversely affected by changes in patent laws, by laws in certain foreign jurisdictions that may not effectively protect our intellectual property rights and/or by ineffective enforcement of laws in such jurisdictions.

We rely primarily on patent, copyright, trademark and trade secret laws, as well as nondisclosure and confidentiality agreements, international treaties and other methods, to protect our proprietary information, technologies and processes, including our patent portfolio. Policing unauthorized use of our products, technologies and proprietary information is difficult and time consuming. The steps we have taken have not always prevented, and we cannot be certain the steps we will take in the future will prevent, the misappropriation or unauthorized use of our proprietary information and technologies, particularly in foreign countries where the laws may not protect our proprietary intellectual property rights as fully or as readily as United States laws or where the enforcement of such laws may be lacking or ineffective. Some industry participants who have a vested interest in devaluing patents in general, or standard-essential patents in particular, have mounted attacks on certain patent systems, increasing the likelihood of changes to established patent laws. In the United States, there is continued discussion regarding potential patent law changes and current and potential future litigation regarding patents, the outcomes of which could be detrimental to our licensing business. The laws in certain foreign countries in which our products are or may be manufactured or sold, including certain countries in Asia, may not protect our intellectual property rights to the same extent as the laws in the United States. We expect that the European Union will adopt a unitary patent system in the next few years that may broadly impact that region's patent regime. We cannot predict with certainty the long-term effects of any potential changes. In addition, we cannot be certain that the laws and policies of any country or the practices of any standards bodies, foreign or domestic, with respect to intellectual property enforcement or licensing or the adoption of standards, will not be changed in the future in a way detrimental to our licensing program or to the sale or use of our products or technologies.

We have had, and may in the future have, difficulty in certain circumstances in protecting or enforcing our intellectual property rights and/or contracts, including collecting royalties for use of our patent portfolio due to, among others: refusal by certain licensees to report and/or pay all or a portion of the royalties they owe to us; policies of foreign governments; challenges to our licensing practices under competition laws; adoption of mandatory licensing provisions by foreign jurisdictions (either with controlled/regulated royalties or royalty free); failure of foreign courts to recognize and enforce judgments of contract breach and damages issued by courts in the United States; and/or challenges before competition agencies to our licensing business and/or the pricing and integration of additional features and functionality into our chipset products. Certain licensees have disputed, underreported, underpaid, not reported and/or not paid royalties owed to us under their license agreements with us or reported to us in a manner that is not in compliance with their contractual obligations, and certain companies have yet to enter into or delayed entering into or renewing license agreements for their use of our intellectual property, and such licensees and/or companies may continue to do so in the future. The fact that one or more licensees dispute, underreport, underpay, do not report and/or do not pay royalties owed to us may encourage other licensees to take similar actions and may encourage other licensees or unlicensed companies to delay entering into, or not enter into, new license agreements. Additionally, although our license agreements provide us with the right to audit the books and records of licensees, audits can be expensive, time consuming, incomplete and subject to dispute. Further, certain licensees may not comply with the obligation to provide full access to their books and records. To the extent we do not aggressively enforce our rights under our license agreements, licensees may not comply with their existing license agreements, and to the extent we do not aggressively pursue unlicensed companies to enter into license agreements with us for their use of our intellectual property, other unlicensed companies may not enter into license agreements. Similarly, we provide access to certain of our intellectual property and/or proprietary and/or confidential business information to our direct and indirect customers and licensees, who may wrongfully use such intellectual property and/or information and/or wrongfully disclose such intellectual property and/or information to third parties, including our competitors.

We have entered into litigation and/or arbitration in the past and may need to further litigate and/or arbitrate in the future to enforce our contract and/or intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights of others. We are currently engaged in litigation matters related to protecting or enforcing our contract and/or intellectual property rights, and certain such matters are described more fully in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies." As a result of any such litigation and/or arbitration, we could lose our ability to enforce one or more patents, portions of our license agreements could be determined to be invalid or unenforceable (which may in turn result in other licensees either not complying with their existing license agreements and/or initiating litigation) and/or we could incur substantial costs. Any action we take to enforce our contract or intellectual property rights could be costly and could absorb significant management time and attention, which, in turn, could negatively impact our results of operations and/or cash flows. Further, even a positive resolution to our enforcement efforts may take time to conclude, which may reduce our revenues and cash resources available for other purposes, such as research and development, in the periods prior to conclusion. See also the Risk Factor entitled "Changes in our patent licensing practices, whether due to governmental investigations, private legal proceedings challenging those practices or otherwise, could adversely impact our business and results of operations."

Our growth increasingly depends on our ability to extend our technologies, products and services into new and expanded product areas, such as RFFE, and adjacent industry segments outside of traditional cellular industries, such as automotive, IoT and networking, among others. Our research, development and other investments in these new and expanded product areas and industry segments, and related technologies, products and services, as well as in our existing technologies, products and services and new technologies, such as 5G, may not generate operating income or contribute to future results of operations that meet our expectations.

Our industry is subject to rapid technological change, evolving industry standards and frequent new product introductions, and we must make substantial research, development and other investments, such as acquisitions, in new products, services and technologies to compete successfully. Technological innovations generally require significant research and development efforts before they are commercially viable. While we continue to invest significant resources toward advancements primarily in support of 4G- and 5G-based technologies, we also innovate across a broad spectrum of opportunities to deploy new and expanded products and enter into adjacent industry segments by leveraging our existing technical and business expertise and/or through acquisitions.

In particular, our future growth significantly depends on new and expanded product areas, such as RFFE, and adjacent industry segments, such as automotive, IoT (including the connected home, smart cities, wearables, voice and music and robotics), networking, computing and machine learning, among others; our ability to develop leading and cost-effective technologies, products and services for new and expanded product areas and adjacent industry segments; and third parties incorporating our technology, products and services into devices used in these product areas and industry segments. Accordingly, we intend to continue to make substantial investments in these new and expanded product areas and adjacent industry segments, and in developing new products, services and technologies for these product areas and industry segments.

However, our research, development and other investments in these new and expanded product areas and adjacent industry segments, and corresponding technologies, products and services, as well as in our existing, technologies, products and services and new technologies, such as 5G, use of both licensed and unlicensed spectrum, and convergence of cellular and Wi-Fi, may not succeed due to, among other reasons: new industry segments and/or consumer demand may not develop and/or grow as anticipated; our strategies and/or the strategies of our customers, licensees or partners may not be successful; improvements in alternate technologies in ways that reduce the advantages we anticipate from our investments; competitors' products or services being more cost effective, having more capabilities or fewer limitations or being brought to market faster than our new products and services; and competitors having longer operating histories in industry segments that are new to us. We may also underestimate the costs of or overestimate the future revenues and/or margins that could result from these investments, and these investments may not, or may take many years to, generate material returns. Further, the automotive industry is subject to long design-in time frames, long product life cycles and a high degree of regulatory and safety requirements, necessitating suppliers to the industry to comply with stringent qualification processes, very low defect rates and high reliability standards, all of which results in a significant barrier to entry and increased costs.

If our new technologies, products and/or services are not successful, or are not successful in the time frame we anticipate, we may incur significant costs and/or asset impairments, our business may not grow as anticipated, our revenues and/or margins may be negatively impacted and/or our reputation may be harmed.

There are numerous risks associated with our operation and control of manufacturing facilities of our joint venture with TDK, RF360 Holdings, including a higher portion of fixed costs relative to a fabless model, environmental compliance and liability, exposure to natural disasters, timely supply of equipment and materials and manufacturing difficulties.

Manufacturing facilities are characterized by a higher portion of fixed costs relative to a fabless model. In less favorable industry environments, in particular, we may be faced with a decline in the utilization rates of our manufacturing facilities due to decreases in demand for our products. During such periods, our manufacturing facilities could operate at lower capacity levels, while the fixed costs associated with full capacity continue to be incurred, resulting in lower gross profit.

We are subject to many environmental, health and safety laws and regulations in each jurisdiction in which we operate our manufacturing facilities, which govern, among other things, emissions of pollutants into the air, wastewater discharges, the use and handling of hazardous substances, waste disposal, the investigation and remediation of soil and ground water contamination and the health and safety of our employees. We are also required to obtain and maintain environmental permits from governmental authorities for certain of our operations. We cannot make assurances that we will be at all times in compliance with such laws, regulations and permits. Certain environmental laws impose strict, and in certain circumstances, joint and several, liability on current or previous owners or operators of real property for the cost of investigation, removal or remediation of hazardous substances. Certain of these laws also assess liability on persons who arrange for hazardous substances to be sent to disposal or treatment facilities when such facilities are found to be contaminated. In addition, we could also be held liable for consequences arising out of human exposure to hazardous substances or other environmental damage.

We have manufacturing facilities in Asia and Europe. If tsunamis, flooding, earthquakes, volcanic eruptions or other natural disasters, or geopolitical conflicts, were to damage, destroy or disrupt our manufacturing facilities, it could disrupt our operations, delay new production and shipments of inventory or result in costly repairs, replacements or other costs. In addition, natural disasters or geopolitical conflicts may result in disruptions in transportation, distribution channels or supply chains, or significant increases in the prices of raw materials.

Our manufacturing operations depend on securing raw materials and other supplies in adequate quality and quantity in a timely manner from multiple suppliers, and in some cases, we rely on a limited number of suppliers, particularly in Asia. Accordingly, there may be cases where supplies of raw materials and other products are interrupted by disaster, accident or some other event at a supplier, supply is suspended due to quality or other issues, or there is a shortage of supply due to a rapid increase in demand, which could impact production and prevent us from supplying products to our customers. If the supply-demand balance is disrupted, it may considerably increase costs of manufacturing due to increased prices we pay for raw materials or fuel. From time to time, suppliers may extend lead times, limit the amounts supplied to us or increase prices due to capacity constraints or other factors. Further, it may be difficult or impossible to substitute one piece of equipment for another or replace one type of material with another. A failure by our suppliers to deliver our requirements could result in disruptions to our manufacturing operations.

Our manufacturing processes are highly complex, require advanced and costly equipment and must be continuously modified to improve yields and performance. Difficulties in the production process can reduce yields or interrupt production, and as a result we may not be able to deliver products or do so in a timely, cost-effective or competitive manner. Further, to remain competitive and/or meet customer demand, we may be required to improve our facilities and process technologies and carry out extensive research and development, each of which may require investment of significant amounts of capital, and may have a material adverse effect on our results of operations, financial condition and/or cash flows.

The continued and future success of our licensing programs requires us to continue to evolve our patent portfolio, and our licensing programs may be impacted by the proliferation of devices in new industry segments such as automotive and IoT, as well as the need to extend license agreements that are expiring and/or to cover additional future patents.

We own a very strong portfolio of issued and pending patents related to 3G, 4G, 5G and other technologies. It is critical that we continue to evolve our patent portfolio, particularly in 5G. If we do not maintain a strong portfolio that is applicable to current and future standards (such as 5G), products and services, our future licensing revenues could be negatively impacted.

In addition, new connectivity and other services are emerging that rely on devices that may or may not be used on traditional cellular networks, such as devices used in the IoT and automotive industry segments. We also seek to diversify and broaden our technology licensing programs to new industry segments in which we can utilize our technology leadership. Standards, even de facto standards, that develop as these technologies mature, in particular those that do not include a base level of interoperability, may impact our ability to obtain royalties at all or that are equivalent to those that we receive for products used in cellular communications. Although we believe that our patented technologies are essential and useful to the commercialization of such services, any royalties we receive may be lower than those we receive from our current licensing program.

Further, the licenses granted to and from us under a number of our license agreements include only patents that are either filed or issued prior to a certain date. As a result, there are agreements with some licensees where later patents are not licensed by or to us. Additionally, many of our license agreements (including essentially all of our recent agreements in China) are effective for a specified term. In order to license or to obtain a license to such later patents after the expiration of a specified term, or to receive royalties after the specified time period, we will need to extend or modify such license agreements or enter into new license agreements with such licensees. Accordingly, to the extent not renewed on their terms or by election for an additional (generally multi-year) period, if applicable, we will need to extend or modify such license agreements or enter into new license agreements with such licensees more frequently than we have done historically. We might not be able to renew those license agreements, or enter into new license agreements, in the future without affecting the material terms and conditions of our license agreements with such licensees, and such modifications or new agreements may negatively impact our revenues. If there is a delay in renewing a license agreement prior to its expiration, there would be a delay in our ability to recognize revenues related to that licensee’s product sales. Further, if we are unable to reach agreement on such modifications or new agreements, it could result in patent infringement litigation with such companies.

We depend on a limited number of third-party suppliers for the procurement, manufacture and testing of our products manufactured in a fabless production model. If we fail to execute supply strategies that provide technology leadership, supply assurance and low cost, our business and results of operations may be harmed. We are also subject to order and shipment uncertainties that could negatively impact our results of operations.

Our QCT segment primarily utilizes a fabless production model, which means that we do not own or operate foundries for the production of silicon wafers from which our integrated circuits are made. Other than the manufacturing facilities we now operate through our RF360 Holdings joint venture, we rely on independent third-party suppliers to perform the manufacturing and assembly, and most of the testing, of our integrated circuits. Our suppliers are also responsible for the procurement of most of the raw materials used in the production of our integrated circuits. We employ both turnkey and two-stage manufacturing models to purchase our integrated circuits. Under the turnkey model, our foundry suppliers are responsible for delivering fully assembled and tested integrated circuits. Under the two-stage manufacturing model, we purchase die in singular or wafer form from semiconductor manufacturing foundries and contract with separate third-party suppliers for manufacturing services such as wafer bump, probe, assembly and the majority of our final test requirements.

The semiconductor manufacturing foundries that supply products to our QCT segment are primarily located in Asia, as are our primary warehouses where we store finished goods for fulfillment of customer orders. The following could have an adverse effect on our ability to meet customer demands and/or negatively impact our revenues, business operations, profitability and/or cash flows:

- a reduction, interruption, delay or limitation in our product supply sources;
- a failure by our suppliers to procure raw materials or to provide or allocate adequate manufacturing or test capacity for our products;
- our suppliers' inability to react to shifts in product demand or an increase in raw material or component prices;
- our suppliers' delay in developing leading process technologies, or inability to develop or maintain leading process technologies, including transitions to smaller geometry process technologies;
- the loss of a supplier or the inability of a supplier to meet performance, quality or yield specifications or delivery schedules;
- additional expense and/or production delays as a result of qualifying a new supplier and commencing volume production or testing in the event of a loss of or a decision to add or change a supplier; and/or
- natural disasters or geopolitical conflicts, particularly in Asia, impacting our suppliers.

While we have established alternate suppliers for certain technologies, we rely on sole- or limited-source suppliers for certain products, subjecting us to significant risks, including: possible shortages of raw materials or manufacturing capacity; poor product performance; and reduced control over delivery schedules, manufacturing capability and yields, quality assurance, quantity and costs. To the extent we have established alternate suppliers, these suppliers may require significant levels of support to bring complex technologies to production. As a result, we may invest a significant amount of effort and resources and incur higher costs to support and maintain such alternate suppliers. Further, any future consolidation of foundry suppliers could increase our vulnerability to sole- or limited-source arrangements and reduce our suppliers' willingness to negotiate pricing, which could negatively impact our ability to achieve cost reductions and/or increase our manufacturing costs. Our arrangements with our suppliers may obligate us to incur costs to manufacture and test our products that do not decrease at the same rate as decreases in pricing to our customers. Our ability, and that of our suppliers, to develop or maintain leading process technologies, including transitions to smaller geometry process technologies, and to effectively compete with the manufacturing processes and performance of our competitors, could impact our ability to introduce new products and meet customer demand, could increase our costs (possibly decreasing our margins) and could subject us to the risk of excess inventories. Our inability to meet customer demand due to sole- or limited-sourcing and/or the additional costs that we incur because of these or other supply constraints or because of the need to support alternate suppliers could negatively impact our business, our results of operations and/or cash flows.

Although we have long-term contracts with our suppliers, many of these contracts do not provide for long-term capacity commitments. To the extent we do not have firm commitments from our suppliers over a specific time period or for any specific quantity, our suppliers may allocate, and in the past, have allocated, capacity to the production and testing of products for their other customers while reducing or limiting capacity to manufacture or test our products. Accordingly, capacity for our products may not be available when we need it or at reasonable prices. To the extent we do obtain long-term capacity commitments, we may incur additional costs related to those commitments and/or make non-refundable payments for capacity commitments that are not used.

One or more of our suppliers or potential alternate suppliers may manufacture CDMA- or OFDMA-based integrated circuits that compete with our products. Such suppliers could elect to allocate raw materials and manufacturing capacity to their own products and reduce or limit deliveries to us to our detriment. In addition, we may not receive reasonable pricing, manufacturing or delivery terms from our suppliers. We cannot guarantee that the actions of our suppliers will not cause disruptions in our operations that could harm our ability to meet our delivery obligations to our customers or increase our cost of sales.

Additionally, we place orders with our suppliers using our forecasts of customer demand, which are based on a number of assumptions and estimates, and are generally only partially covered by commitments from our customers. If we overestimate customer demand, we may experience increased excess and/or obsolete inventory, which would negatively impact our results of operations.

Claims by other companies that we infringe their intellectual property could adversely affect our business.

From time to time, companies have asserted, and may again assert, patent, copyright and other intellectual property rights against our products or products using our technologies or other technologies used in our industry. These claims have resulted and may again result in our involvement in litigation. We may not prevail in such litigation given, among other factors, the complex technical issues and inherent uncertainties in intellectual property litigation. If any of our products or services were found to infringe another company's intellectual property rights, we could be subject to an injunction or be required to redesign our products or services, which could be costly, or to license such rights and/or pay damages or other compensation to such other company. If we are unable to redesign our products or services, license such intellectual property rights used in our products or services or otherwise distribute our products (e.g., through a licensed supplier), we could be prohibited from making and selling such products or providing such services. In any potential dispute involving other companies' patents or other intellectual property, our chipset foundries, semiconductor assembly and test providers and customers could also become the targets of litigation. We are contingently liable under certain product sales, services, license and other agreements to indemnify certain customers, chipset foundries and semiconductor assembly and test service providers against certain types of liability and/or damages arising from qualifying claims of patent infringement by products or services sold or provided by us, or by intellectual property provided by us to our chipset foundries and semiconductor assembly and test service providers. Reimbursements under indemnification arrangements could have an adverse effect on our results of operations and/or cash flows. Furthermore, any such litigation could severely disrupt the supply of our products and the businesses of our chipset customers and their customers, which in turn could hurt our relationships with them and could result in a decline in our chipset sales and/or reductions in our licensees' sales, causing a corresponding decline in our chipset and/or licensing revenues. Any claims, regardless of their merit, could be time consuming to address, result in costly litigation, divert the efforts of our technical and management personnel or cause product release or shipment delays, any of which could have an adverse effect on our results of operations and cash flows.

We expect that we may continue to be involved in litigation and may have to appear in front of administrative bodies (such as the United States International Trade Commission) to defend against patent assertions against our products by companies, some of whom are attempting to gain competitive advantage or leverage in licensing negotiations. We may not be successful in such proceedings, and if we are not, the range of possible outcomes is very broad and may include, for example, monetary damages or fines or other orders to pay money, royalty payments, injunctions on the sale of certain of our integrated circuit products (and/or on the sale of our customers' devices using such products) and/or the issuance of orders to cease certain conduct and/or modify our business practices. Further, a governmental body in a particular country or region may assert, and may be successful in imposing, remedies with effects that extend beyond the borders of that country or region. In addition, a negative outcome in any such proceeding could severely disrupt the business of our chipset customers and their wireless operator customers, which in turn could harm our relationships with them and could result in a decline in our worldwide chipset sales and/or a reduction in our licensees' sales to wireless operators, causing corresponding declines in our chipset and/or licensing revenues.

Certain legal matters, including certain claims by other companies that we infringe their intellectual property, are described more fully in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies."

We may engage in strategic acquisitions, transactions or make investments, or be unable to consummate planned strategic acquisitions, which could adversely affect our results of operations or fail to enhance stockholder value.

We engage in strategic acquisitions and other transactions, including joint ventures, and make investments, which we believe are important to the future of our business, with the goal of maximizing stockholder value. We acquire businesses and other assets, including patents, technology, wireless spectrum and other intangible assets, enter into joint ventures or other strategic transactions and purchase minority equity interests in or make loans to companies that may be private and early-stage. Our strategic activities are generally focused on opening or expanding opportunities for our technologies and supporting the design and introduction of new products and services (or enhancing existing products or services) for voice and data communications and new industry segments. Recent material transactions include our RF360 Holdings joint venture with TDK Corporation and our acquisition of CSR plc. Many of our strategic activities entail a high degree of risk and require the use of domestic and/or foreign capital, and investments may not become liquid for several years after the date of the investment, if at all. Our strategic activities may not generate financial returns or result in increased adoption or continued use of our technologies, products or services. We may underestimate the costs and/or overestimate the benefits, including product, revenue, cost and other synergies and growth opportunities that we expect to realize, and we may not achieve those benefits. In some cases, we may be required to consolidate or record our share of the earnings or losses of companies in which we have acquired ownership interests. In addition, we may record impairment charges related to our strategic activities. Any losses or impairment charges that we incur related to strategic activities will have a negative impact on our financial condition and results of operations, and we may continue to incur new or additional losses related to strategic assets or investments that we have not fully impaired or exited.

Achieving the anticipated benefits of business acquisitions, including joint ventures and other strategic investments in which we have management and operational control, depends in part upon our ability to integrate the businesses in an efficient and effective manner and achieve anticipated synergies, and we may not be successful in these efforts. Such integration is complex and time consuming and involves significant challenges, including, among others: retaining key employees; successfully integrating new employees, technology, products, processes, operations (including manufacturing operations), sales and distribution channels, business models and business systems; retaining customers and suppliers of the businesses; consolidating research and development and/or supply operations; minimizing the diversion of management's attention from ongoing business matters; consolidating corporate and administrative infrastructures; and managing the increased scale, complexity and globalization of our business, operations and employee base. We may not derive any commercial value from associated technologies or products or from future technologies or products based on these technologies, and we may be subject to liabilities that are not covered by indemnification protection that we may obtain, and we may become subject to litigation. Additionally, we may not be successful in entering or expanding into new sales or distribution channels, business or operational models (including manufacturing), geographic regions, industry segments and/or categories of products served by or adjacent to the associated businesses or in addressing potential new opportunities that may arise out of the combination.

If we do not achieve the anticipated benefits of business acquisitions or other strategic activities, our business and results of operations may be adversely affected, and we may not enhance stockholder value by engaging in these transactions.

In the absence of approval from SAMR or other material developments, we expect to terminate our proposed acquisition of NXP after the End Date. In such an event, we would not realize the benefits that we anticipated from the acquisition, including, but not limited to, increased revenues; accelerated revenue diversification; significantly expanded addressable markets and opportunities; accelerated entry into new industry segments and expansion in existing industry segments; new and expanded product offerings and technologies; accelerated expansion of sales and distribution channels; cost and other synergies; and earnings accretion from the acquisition. In addition, future acquisitions may now be more difficult, complex or expensive to the extent that our reputation for our ability to consummate acquisitions has been harmed. Further, if U.S./China trade relations remain strained, our ability to consummate any transaction that would require approval from SAMR may be severely impacted.

If we are unsuccessful in executing our cost plan, our business and results of operations may be adversely affected.

In the second quarter of fiscal 2018, we announced a cost plan designed to align our cost structure to our long-term margin targets. As part of this plan, we are implementing a series of targeted reductions across our businesses to reduce annual costs by $1 billion, excluding incremental costs resulting from any future acquisition of a business. We expect these cost reductions to be fully captured in fiscal 2019.

We cannot provide assurance that our cost plan will be successful, that anticipated cost savings will be realized, that our operations, business and financial results will improve and/or that these efforts will not disrupt our operations (beyond what is intended). Our ability to achieve the anticipated cost savings and other benefits within the expected time frames is subject to many estimates and assumptions, which are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. Further, we may experience delays in the timing of these efforts and/or higher than expected or unanticipated costs in implementing them. Moreover, changes in the size, alignment or organization of our workforce could adversely affect employee morale and retention, relations with customers and business partners, our ability to develop and deliver products and services as anticipated and/or impair our ability to realize our current or future business and financial objectives. If we do not succeed in these efforts, if these efforts are more costly or time-consuming than expected, if our estimates and assumptions are not correct, if we experience delays or if other unforeseen events occur, our business and results of operations may be adversely affected.

We are subject to various laws, regulations, policies and standards. Our business may suffer as a result of existing, or new or amended, laws, regulations, policies or standards and/or our failure or inability to comply with laws, regulations, policies or standards.

Our business, products and services, and those of our customers and licensees, are subject to various laws and regulations globally, as well as government policies and the specifications of international, national and regional communications standards bodies. Compliance with existing laws, regulations, policies and standards, the adoption of new laws, regulations, policies or standards, changes in the interpretation of existing laws, regulations, policies or standards, changes in the regulation of our activities by a government or standards body and/or rulings in court, regulatory, administrative or other proceedings relating to such laws, regulations, policies or standards, including, among others, those

affecting licensing practices, competitive business practices, the use of our technology or products, protection of intellectual property, trade and trade protection including tariffs, foreign currency, investments or loans, spectrum availability and license issuance, adoption of standards, the provision of device subsidies by wireless operators to their customers, taxation, export control, privacy and data protection, environmental protection, health and safety, labor and employment, human rights, corporate governance, public disclosure or business conduct could have an adverse effect on our business and results of operations.
Government policies, particularly in China, that regulate the amount and timing of funds that may flow out of a country may impact the timing of our receipt of payments from our customers and/or licensees in such country, which may negatively impact our cash flows.
Delays in government approvals or other governmental activities that could result from, among others, a decrease in or a lack of funding for certain agencies or branches of the government and/or political changes, could result in our incurring higher costs, could negatively impact our ability to timely consummate strategic transactions and/or could have other negative impacts on our business and the businesses of our customers and licensees.
National, state and local environmental laws and regulations affect our operations around the world. These laws may make it more expensive to manufacture, have manufactured and sell products, and our costs could increase if our vendors (e.g., suppliers, third-party manufacturers or utility companies) pass on their costs to us. Any imposition of tariffs on our raw materials or our products could have a negative impact on our revenues and/or results of operations. We are also subject to laws and regulations impacting the manufacturing operations of our RF360 Holdings joint venture. See the Risk Factor entitled “There are numerous risks associated with our operation and control of manufacturing facilities of our joint venture with TDK, RF360 Holdings, including high fixed costs, environmental compliance and liability, exposure to natural disasters, timely supply of equipment and materials and manufacturing difficulties.”
Regulations in the United States require that we determine whether certain materials used in our products, referred to as conflict minerals, originated in the Democratic Republic of the Congo or an adjoining country (collectively, the Covered Countries), or were from recycled or scrap sources. Other countries and/or regions are expected to impose similar requirements in the future. The verification and reporting requirements, in addition to customer demands for conflict free sourcing, impose additional costs on us and on our suppliers and may limit the sources or increase the prices of materials used in our products. Further, if we are unable to determine that the conflict minerals used in our products do not directly or indirectly finance or benefit armed groups in the Covered Countries, we may face challenges with our customers that place us at a competitive disadvantage, and our reputation may be harmed. Similarly, other laws and regulations have been adopted or proposed that require additional transparency regarding the employment practices of our suppliers, and any failure to maintain responsible sourcing practices could also adversely affect our relationships with customers and our reputation.
Laws, regulations, policies and standards are complex and changing and may create uncertainty regarding compliance.
Laws, regulations, policies and standards are subject to varying interpretations in many cases, and their application in practice may evolve over time. As a result, our efforts to comply may fail, particularly if there is ambiguity as to how they should be applied in practice. Failure to comply with any law, regulation, policy or standard may adversely affect our business, results of operations and/or cash flows. New laws, regulations, policies and standards or evolving interpretations of legal requirements may cause us to incur higher costs as we revise current practices, policies and/or procedures and may divert management time and attention to compliance activities.
Our use of open source software may harm our business.
Certain of our software and our suppliers’ software may contain or may be derived from “open source” software, and we have seen, and believe we will continue to see, an increase in customers requesting that we develop products, including software associated with our integrated circuit products, that incorporate open source software elements and operate in an open source environment, which, under certain open source licenses, may offer accessibility to a portion of a product’s source code and may expose related intellectual property to adverse licensing conditions. Licensing of such software may impose certain obligations on us if we were to distribute derivative works of the open source software. For example, these obligations may require us to make source code for the derivative works available to our customers in a manner that allows them to make such source code available to their customers or license such derivative works under a particular type of license that is different than what we customarily use to license our

software. Developing open source products, while adequately protecting the intellectual property rights upon which our licensing business depends, may prove burdensome and time-consuming under certain circumstances, thereby placing us at a competitive disadvantage, and we may not adequately protect our intellectual property rights. Also, our use and our customers' use of open source software may subject our products and our customers' products to governmental scrutiny and delays in product certification, which could cause customers to view our products as less desirable than our competitors' products. While we believe we have taken appropriate steps and employ adequate controls to protect our intellectual property rights, our use of open source software presents risks that could have an adverse effect on these rights and on our business.

Our stock price, earnings and the fair value of our investments are subject to substantial quarterly and annual fluctuations and to market downturns.

Our stock price and earnings have fluctuated in the past and are likely to fluctuate in the future. Factors that may have a significant impact on the market price of our stock and/or earnings include those identified throughout this Risk Factors section; volatility of the stock market in general and technology-based companies in particular; announcements concerning us, our suppliers, our competitors or our customers or licensees; and variations between our actual financial results or guidance and expectations of securities analysts or investors, among others. Further, increased volatility in the financial markets and/or overall economic conditions may reduce the amounts that we realize in the future on our cash equivalents and/or marketable securities and may reduce our earnings as a result of any impairment charges that we record to reduce recorded values of marketable securities to their fair values.

In the past, securities class action litigation has been brought against a company following periods of volatility in the market price of its securities. Due to changes in our stock price, we are and may in the future be the target of securities litigation. Securities litigation could result in substantial uninsured costs and divert management’s attention and our resources. Certain legal matters, including certain securities litigation brought against us, are described more fully in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies.”

We maintain an extensive investment portfolio of varied holdings, which are generally classified as available-for-sale and are therefore recorded on our consolidated balance sheet at fair value, with unrealized gains or losses reported as a component of accumulated other comprehensive income. The fair values of our investments are subject to fluctuation based primarily on market price volatility, as well as the underlying operations of the associated investment, among other things. If the fair value of such investments decreases below their cost basis, as some of our previous investments have, we may be required in certain circumstances to recognize a loss in our results of operations. The sensitivity of and risks associated with the market value of our investment portfolio are described more fully in our Annual Report on Form 10-K for our fiscal year ended September 24, 2017 and in “Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk” in this Quarterly Report.

There are risks associated with our indebtedness and our significant proposed stock repurchase program.

Our outstanding indebtedness and any additional indebtedness we incur may have negative consequences on our business, including, among others:

- requiring us to use cash to pay the principal of and interest on our indebtedness, thereby reducing the amount of cash available for other purposes;
- limiting our ability to obtain additional financing for working capital, capital expenditures, acquisitions, stock repurchases, dividends or other general corporate and other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry; and/or
- increasing our vulnerability to interest rate fluctuations to the extent a portion of our debt has variable interest rates.

Our ability to make payments of principal and interest on our indebtedness depends upon our future performance, which is subject to general economic conditions, industry cycles and financial, business and other factors, including factors which negatively impact our cash flows, such as licensees withholding some or all of the royalty payments they owe to us or paying fines in connection with regulatory investigations, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required to, among other things: refinance or restructure all or a portion of our indebtedness; reduce or delay planned capital or operating expenditures; or sell selected assets. Such measures might not be sufficient to enable us to service our debt. In addition, any such refinancing, restructuring or sale of assets might not be available on economically favorable terms or at all, and if prevailing interest rates at the time of any such refinancing and/or restructuring are higher than our current rates, interest expense related to such refinancing and/or restructuring would increase. If there are adverse changes in the ratings assigned to our debt securities by credit rating agencies, our borrowing costs, our ability to access debt in the future and/or the terms of such debt could be adversely affected.

In the event of the termination of our proposed acquisition of NXP, we intend to implement a stock repurchase program to repurchase up to $30 billion of our outstanding common stock. This stock repurchase program will significantly reduce the amount of cash that we have available to fund our operations (including research and development), working capital, capital expenditures, acquisitions, investments, dividends and other corporate purposes; and limit our flexibility in planning for or reacting to, and increase our vulnerability to, adverse economic, market, industry and competitive conditions and developments, and other changes in our business and our industry. In addition, this significant decrease in our cash reserves will exacerbate the risks described above associated with our indebtedness.

Our business and operations could suffer in the event of security breaches of our information technology systems, or other misappropriation of our intellectual property or proprietary or confidential information.

Third parties regularly attempt to gain unauthorized access to our information technology systems, and most of such attempts are increasingly more sophisticated. These attempts, which might be related to industrial or other espionage, criminal hackers or state-sponsored intrusions, include trying to covertly introduce malware to our computers and networks, including those in our manufacturing operations, and impersonating authorized users, among others. Such attempts could result in the misappropriation, theft, misuse, disclosure or loss or destruction of the intellectual property, or the proprietary, confidential or personal information, of us or our employees, customers, licensees, suppliers or other third parties, as well as damage to or disruptions in our information technology systems. These threats are constantly evolving, thereby increasing the difficulty of successfully defending against them or implementing adequate preventative measures.

We seek to detect and investigate all security incidents and to prevent their recurrence, but attempts to gain unauthorized access to our information technology systems may be successful, and in some cases, we might be unaware of an incident or its magnitude and effects. The misappropriation, theft, misuse, disclosure or loss or destruction of the intellectual property, or the proprietary, confidential or personal information, of us or our employees, customers, licensees, suppliers or other third parties could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives, cause us to lose business, damage our reputation, subject us to legal or regulatory proceedings, cause us to incur other loss or liability and/or otherwise adversely affect our business. We expect to continue to devote significant resources to the security of our information technology systems.

In addition, employees and former employees, in particular former employees who become employees of our competitors, customers or licensees, may misappropriate, use, publish or provide to our competitors, customers or licensees our intellectual property and/or proprietary or confidential business information. Similarly, we provide access to certain of our intellectual property and/or proprietary and/or confidential business information to our direct and indirect customers and licensees, who may wrongfully use such intellectual property and/or information and/or wrongfully disclose such intellectual property and/or information to third parties, including our competitors.

Potential tax liabilities could adversely affect our results of operations.

We are subject to income taxes in the United States and numerous foreign jurisdictions, including Singapore where our QCT segment's non-United States headquarters is located. Significant judgment is required in determining our provision for income taxes. We regularly are subject to examination of our tax returns and reports by taxing authorities in the United States federal jurisdiction and various state and foreign jurisdictions, most notably in countries where we earn a routine return and the tax authorities believe substantial value-add activities are performed. Our current examinations are at various stages with respect to assessments, claims, deficiencies and refunds. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, income taxes payable and deferred taxes in the period in which the facts give rise to a revision become known. Although we believe that our tax estimates are reasonable at June 24, 2018, the final determination of tax audits and any related legal proceedings could materially differ from amounts reflected in our historical income tax provisions and accruals. In such case, our income tax provision, results of operations and/or cash flows in the period or periods in which that determination is made could be negatively affected.

On December 22, 2017, tax reform legislation known as the Tax Cuts and Jobs Act (the Tax Legislation) was enacted in the United States. Given the amount and complexity of the changes in tax law resulting from the Tax Legislation, we have not finalized the accounting for the income tax effects of the Tax Legislation. This includes the provisional amounts recorded in the nine months ended June 24, 2018 related to the repatriation tax on deemed repatriated earnings and profits of U.S.-owned foreign subsidiaries (Toll Charge) and the remeasurement of deferred taxes. Further, we are in the process of analyzing the effects of new taxes due on certain foreign income, such as GILTI (global intangible low-taxed income), BEAT (base-erosion anti-abuse tax), FDII (foreign-derived intangible income) and limitations on interest expense deductions (if certain conditions apply) that are effective starting in fiscal 2019,

and other provisions of the Tax Legislation. The impact of the Tax Legislation may differ from this estimate, possibly materially, during the one-year measurement period due to, among other things, further refinement of our calculations, changes in interpretations and assumptions we have made, guidance that may be issued and actions we may take as a result of the Tax Legislation.
We have tax incentives in Singapore provided that we meet specified employment and other criteria, and as a result of the expiration of these incentives, our Singapore tax rate is expected to increase in fiscal 2022 and again in fiscal 2027. If we

do not meet the criteria required to retain such incentives, our Singapore tax rate could increase prior to fiscal 2027, and our results of operations and cash flows could be adversely affected.

Tax rules may change in a manner that adversely affects our future reported results of operations or the way we conduct our business. Further changes in the tax laws of foreign jurisdictions could arise as a result of the base erosion and profit shifting (BEPS) project that was undertaken by the Organization for Economic Co-operation and Development (OECD). The OECD, which represents a coalition of member countries, recommended changes to numerous long-standing tax principles related to transfer pricing. These changes, if adopted by countries, could increase tax uncertainty and may adversely affect our provision for income taxes, results of operations and/or cash flow. We have not yet determined what changes, if any, may be needed to our operations or structure to address BEPS. If our effective tax rates were to increase, particularly in the United States or Singapore, our results of operations, cash flows and/or financial condition could be adversely affected.

Global, regional or local economic conditions that impact the mobile communications industry or the other industries in which we operate could negatively affect the demand for our products and services and our customers' or licensees' products and services, which may negatively affect our revenues.

A decline in global, regional or local economic conditions or a slow-down in economic growth, including as a result of trade protection policies, such as tariffs, particularly in geographic regions with high concentrations of wireless voice and data users or high concentrations of our customers or licensees, could have adverse, wide-ranging effects on demand for our products and for the products and services of our customers or licensees, particularly equipment manufacturers or others in the wireless communications industry who buy their products, such as wireless operators. Any prolonged economic downturn may result in a decrease in demand for our products or technologies; the insolvency of key suppliers, customers or licensees; delays in reporting and/or payments from our licensees and/or customers; failures by counterparties; and negative effects on wireless device inventories. In addition, our customers' ability to purchase or pay for our products and services and network operators' ability to upgrade their wireless networks could be adversely affected by economic conditions, leading to a reduction, cancelation or delay of orders for our products or services.

We may not be able to attract and retain qualified employees.

Our future success depends largely upon the continued service of our executive officers and other key management and technical personnel, and on our ability to continue to identify, attract, retain and motivate them, which may become increasingly difficult in an environment of cost reductions. Implementing our business strategy requires specialized engineering and other talent, as our revenues are highly dependent on technological and product innovations. The market for employees in our industry is extremely competitive. Further, existing immigration laws make it more difficult for us to recruit and retain highly skilled foreign national graduates of universities in the United States, making the pool of available talent even smaller. If we are unable to attract and retain qualified employees, our business may be harmed.

Currency fluctuations could negatively affect future product sales or royalty revenues, harm our ability to collect receivables or increase the U.S. dollar cost of our products.

Our customers sell their products throughout the world in various currencies. Our consolidated revenues from international customers and licensees as a percentage of our total revenues were greater than 90% in each of the last three fiscal years. Adverse movements in currency exchange rates may negatively affect our business, revenues, results of operations and/or cash flows due to a number of factors, including, among others:

- Our products and those of our customers and licensees that are sold outside the United States may become less price-competitive, which may result in reduced demand for those products and/or downward pressure on average selling prices;
- Certain of our revenues that are derived from products that are sold in foreign currencies could decrease, resulting in lower revenue, cash flows and margins;
- Certain of our revenues, such as royalties, that are derived from licensee or customer sales denominated in foreign currencies could decrease, resulting in lower revenues and cash flows;
- Our foreign suppliers may raise their prices if they are impacted by currency fluctuations, resulting in higher than expected costs and lower margins;
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Certain of our costs that are denominated in foreign currencies could increase, resulting in higher than expected costs and cash outflows; and/or

- Foreign exchange hedging transactions that we engage in to reduce the impact of currency fluctuations may require the payment of structuring fees, limit the U.S. dollar value of royalties from licensees' sales that are denominated in foreign currencies, cause earnings volatility if the hedges do not qualify for hedge accounting and expose us to counterparty risk if the counterparty fails to perform.

Failures in our products or services or in the products or services of our customers or licensees, including those resulting from security vulnerabilities, defects or errors, could harm our business.

The use of devices containing our products to interact with untrusted systems or otherwise access untrusted content creates a risk of exposing the system hardware and software in those devices to malicious attacks. While we continue to focus on this issue and are taking measures to safeguard our products from cybersecurity threats, device capabilities continue to evolve, enabling more elaborate functionality and use cases, and increasing the risk of security failures. Further, our products are inherently complex and may contain defects or errors that are detected only when the products are in use. Because our products and services are responsible for critical functions in our customers' products and/or networks, security failures, defects or errors in our products or services could have an adverse impact on us, on our customers and/or on the end users of our customers' products. Such adverse impact could include shipment delays; product liability claims or recalls; write-offs of our inventories, property, plant and equipment and/or intangible assets; unfavorable purchase commitments; a shift of business to our competitors; a decrease in demand for connected devices and wireless services; damage to our reputation and our customer relationships; regulatory actions; and other financial liability or harm to our business. Further, security failures, defects or errors in the products of our customers or licensees could have an adverse impact on our results of operations and/or cash flows due to a delay or decrease in demand for our products or services generally, and our premium-tier products in particular, among other factors. Development of products and features in new domains of technology and the migration to integrated circuit technologies with smaller geometric feature sizes are complex and add risk to manufacturing yields and reliability. Further, manufacturing, testing, marketing and use of our products and those of our customers and licensees entail the risk of product liability.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial market risks related to interest rates, foreign currency exchange rates and equity prices are described in our 2017 Annual Report on Form 10-K. At June 24, 2018, there have been no material changes to the financial market risks described at September 24, 2017. We do not currently anticipate any other near-term changes in the nature of our financial market risk exposures or in management's objectives and strategies with respect to managing such exposures.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such terms are defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting in the third quarter of fiscal 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information regarding certain legal proceedings is provided in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies." We are also engaged in numerous other legal actions arising in the ordinary course of our business and, while there can be no assurance, we believe that the ultimate outcome of these other legal actions will not have a material adverse effect on our business, results of operations, financial condition or cash flows.

ITEM 1A. RISK FACTORS

We have provided updated Risk Factors in the section labeled "Risk Factors" in "Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations." With the exception of prior changes to our Risk Factors in our Form 10-Q for the fiscal quarter ended December 24, 2017, specifically changes to the risk factor labeled "Potential tax liabilities could adversely affect our results of operations" and the addition of the risk factor labeled "If we are unsuccessful in executing our cost plan, our business and results of operations may be adversely affected," and changes to the risk factors labeled "Our proposed acquisition of NXP Semiconductors N.V. (NXP), and our intended termination of that acquisition, entails a number of risks that may adversely affect our business and results of operations," "We may engage in strategic acquisitions, transactions or make investments, or be unable to consummate planned strategic acquisitions, which could adversely affect our results of operations or fail to enhance stockholder value" and "There are risks associated with our indebtedness and our significant proposed stock repurchase program" updated herein, we do not believe those updates have materially changed the type or magnitude of the risks we face in comparison to the disclosure provided in our most recent Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer purchases of equity securities in the third quarter of fiscal 2018 were:

	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
	(In thousands)		(In thousands)	(In millions)
March 26, 2018 to April 22, 2018	—	$ —	—	$ 1,220
April 23, 2018 to May 20, 2018	5,373	55.82	5,373	9,700
May 21, 2018 to June 24, 2018	12,014	58.26	12,014	9,000
Total	17,387		17,387	

(1) Average Price Paid Per Share excludes cash paid for commissions.

(2) On May 9, 2018, we announced a new repurchase program authorizing us to repurchase up to $10 billion of our common stock. At June 24, 2018, $9.0 billion remained authorized for repurchase. The stock repurchase program has no expiration date. The $10 billion stock repurchase program replaced a $15 billion stock repurchase program announced on March 9, 2015, of which $1.2 billion remained authorized for repurchase. If we have not received regulatory approval by the State Administration for Market Regulation in China or other material developments have not occurred, we expect to terminate the proposed acquisition of NXP after July 25, 2018 at 11:59 p.m. New York time. In the event the NXP Acquisition is terminated, we intend to implement a stock repurchase program to repurchase up to $30 billion of our outstanding common stock. This new stock repurchase program, if implemented, will have no expiration date and will replace the stock repurchase program announced in May 2018.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Form	File No./ Film No.	Date of First Filing	Exhibit Number	Filed Herewith
2.1	Master Transaction Agreement, dated January 13, 2016, by and among Qualcomm Global Trading Pte. Ltd., each other Purchaser Group member, TDK Japan, each other Seller Group member, and, solely for purposes of Section 10.9 thereof, QUALCOMM Incorporated. (1)	8-K	000-19528/ 161339867	1/13/2016	2.1	
2.2	Amendment #1, dated December 20, 2016, to Master Transaction Agreement, dated January 13, 2016, by and among Qualcomm Global Trading Pte. Ltd., each other Purchaser Group member, TDK Japan, each other Seller Group member, and, solely for purposes of Section 10.9 thereof, QUALCOMM Incorporated. (1)	10-Q	000-19528/ 17546539	1/25/2017	2.3	
2.3	Amendment #2, dated January 19, 2017, to Master Transaction Agreement, dated January 13, 2016, by and among Qualcomm Global Trading Pte. Ltd., each other Purchaser Group member, TDK Japan, each other Seller Group member, and, solely for purposes of Section 10.9 thereof, QUALCOMM Incorporated. (1)	10-Q	000-19528/ 17546539	1/25/2017	2.4	
2.4	Amendment #3, dated February 3, 2017, to Master Transaction Agreement, dated January 13, 2016, by and among Qualcomm Global Trading Pte. Ltd., each other Purchaser Group member, TDK Japan, each other Seller Group member, and, solely for purposes of Section 10.9 thereof, QUALCOMM Incorporated. (1)	10-Q	000-19528/ 17770305	4/19/2017	2.6	
2.5	Purchase Agreement dated as of October 27, 2016 by and between Qualcomm River Holdings, B.V. and NXP Semiconductors N.V. (1)	8-K	000-19528/ 161956228	10/27/2016	2.1	
2.6	Amendment No. 1, dated February 20, 2018, to Purchase Agreement, dated as of October 27, 2016, by and between Qualcomm River Holdings B.V. and NXP Semiconductors N.V. (1)	8-K	000-19528/ 18623109	2/20/2018	2.1	
2.7	Amendment No. 2, dated April 19, 2018, to Purchase Agreement, dated as of October 27, 2016, by and between Qualcomm River Holdings B.V. and NXP Semiconductors N.V., as amended by Amendment No. 1 to the Purchase Agreement, dated as of February 20, 2018, by and between Qualcomm River Holdings B.V. and NXP Semiconductors N.V. (1)	8-K	000-19528/ 18762502	4/19/2018	2.1	
3.1	Amended and Restated Certificate of Incorporation	8-K	000-19528/ 18766678	4/20/2018	3.1	
3.2	Amended and Restated Bylaws	8-K	000-19528/ 18957073	7/17/2018	3.1	
4.1	Indenture, dated May 20, 2015, between the Company and U.S. Bank National Association, as	8-K	000-19528/ 15880967	5/21/2015	4.1	

	trustee.				
4.2	Officers’ Certificate, dated May 20, 2015, for the Floating Rate Notes due 2018, the Floating Rate Notes due 2020, the 1.400% Notes due 2018, the 2.250% Notes due 2020, the 3.000% Notes due 2022, the 3.450% Notes due 2025, the 4.650% Notes due 2035 and the 4.800% Notes due 2045.	8-K	000-19528/ 15880967	5/21/2015	4.2
4.3	Form of Floating Rate Notes due 2018.	8-K	000-19528/ 15880967	5/21/2015	4.3
4.4	Form of Floating Rate Notes due 2020.	8-K	000-19528/ 15880967	5/21/2015	4.4
4.5	Form of 1.400% Notes due 2018.	8-K	000-19528/ 15880967	5/21/2015	4.5
4.6	Form of 2.250% Notes due 2020.	8-K	000-19528/ 15880967	5/21/2015	4.6
4.7	Form of 3.000% Notes due 2022.	8-K	000-19528/ 15880967	5/21/2015	4.7
4.8	Form of 3.450% Notes due 2025.	8-K	000-19528/ 15880967	5/21/2015	4.8

Exhibit Number	Exhibit Description	Form	File No./ Film No.	Date of First Filing	Exhibit Number	Filed Herewith
4.9	Form of 4.650% Notes due 2035.	8-K	000-19528/ 15880967	5/21/2015	4.9	
4.10	Form of 4.800% Notes due 2045.	8-K	000-19528/ 15880967	5/21/2015	4.10	
4.11	Officers' Certificate, dated May 26, 2017, for the Floating Rate Notes due 2019, the Floating Rate Notes due 2020, the Floating Rate Notes due 2023, the 1.850% Notes due 2019, the 2.100% Notes due 2020, the 2.600% Notes due 2023, the 2.900% Notes due 2024, the 3.250% Notes due 2027 and the 4.300% Notes due 2047.	8-K	000-19528/ 17882336	5/31/2017	4.2	
4.12	Form of Floating Rate Notes due 2019.	8-K	000-19528/ 17882336	5/31/2017	4.3	
4.13	Form of Floating Rate Notes due 2020.	8-K	000-19528/ 17882336	5/31/2017	4.4	
4.14	Form of Floating Rate Notes due 2023.	8-K	000-19528/ 17882336	5/31/2017	4.5	
4.15	Form of 1.850% Notes due 2019.	8-K	000-19528/ 17882336	5/31/2017	4.6	
4.16	Form of 2.100% Notes due 2020.	8-K	000-19528/ 17882336	5/31/2017	4.7	
4.17	Form of 2.600% Notes due 2023.	8-K	000-19528/ 17882336	5/31/2017	4.8	
4.18	Form of 2.900% Notes due 2024.	8-K	000-19528/ 17882336	5/31/2017	4.9	
4.19	Form of 3.250% Notes due 2027.	8-K	000-19528/ 17882336	5/31/2017	4.10	
4.20	Form of 4.300% Notes due 2047.	8-K	000-19528/ 17882336	5/31/2017	4.11	
4.21	Officers' Certificate, dated May 31, 2018, for the New 2019 Floating Rate Notes, the New 2020 Floating Rate Notes and the New 2019 Fixed Rate Notes	8-K	000-19528/ 18880177	6/5/2018	4.2	
4.22	Form of Floating Rate Rule 144A Global Note due 2019	8-K	000-19528/ 18880177	6/5/2018	4.3	
4.23	Form of Floating Rate Regulation S Global Note due 2019	8-K	000-19528/ 18880177	6/5/2018	4.4	
4.24	Form of Floating Rate Rule 144A Global Note due 2020	8-K	000-19528/ 18880177	6/5/2018	4.5	
4.25	Form of Floating Rate Regulation S Global Note due 2020	8-K	000-19528/ 18880177	6/5/2018	4.6	
4.26	Form of 1.850% Rule 144A Global Note due 2019	8-K	000-19528/ 18880177	6/5/2018	4.7	
4.27	Form of 1.850% Regulation S Global Note due 2019	8-K	000-19528/ 18880177	6/5/2018	4.8	
4.28	Registration Rights Agreement, dated as of May 31, 2018	8-K	000-19528/ 18880177	6/5/2018	4.9	
10.47	Amendment No. 1, dated as of April 20, 2018, among QUALCOMM Incorporated, the lenders party thereto	8-K	000-19528/ 18771694	4/24/2018	10.1	

	and Goldman Sachs Bank USA, as administrative agent, to the Credit Agreement dated as of November 8, 2016, among QUALCOMM Incorporated, the lenders party thereto and Goldman Sachs Bank USA, as administrative agent.				
10.48	Amendment No. 1, dated as April 20, 2018, among QUALCOMM Incorporated, the lenders party thereto and Goldman Sachs Bank USA, as administrative agent, to the Credit Agreement dated as of March 6, 2018, among QUALCOMM Incorporated, the lenders party thereto and Goldman Sachs Bank USA, as administrative agent.	8-K	000-19528/ 18771694	4/24/2018	10.2
10.63	Qualcomm Incorporated Executive Officer Change in Control Severance Plan	8-K	000-19528/ 18859830	5/25/2018	10.1

65

Exhibit Number	Exhibit Description	Form	File No./ Film No.	Date of First Filing	Exhibit Number	Filed Herewith
10.64	Amendment No. 2, dated as of June 11, 2018, among QUALCOMM Incorporated, the lenders party thereto and Goldman Sachs Bank USA, as administrative agent, to the Credit Agreement dated as of March 6, 2018, among QUALCOMM Incorporated, the lenders party thereto and Goldman Sachs Bank USA, as administrative agent.	8-K	000-19528/ 18896982	6/13/2018	10.1	
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Steve Mollenkopf.					X
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for George S. Davis.					X
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for Steve Mollenkopf.					X
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for George S. Davis.					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.					X
101.LAB	XBRL Taxonomy Extension Labels Linkbase.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase.					X

(1) The Company shall furnish supplementally a copy of any omitted schedule to the Commission upon request.
(2) Indicates management contract or compensatory plan or arrangement required to be identified pursuant to Item 15(a).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUALCOMM Incorporated

/s/ George S. Davis
George S. Davis
Executive Vice President and Chief Financial Officer

Dated: July 25, 2018